SCIENTIFIC INVESTMENT FOR EVERYBODY

THE MAGAZINE OF WALL STREET

Making Money in Copper Bonds

A Shrewd Investor's Plan of Operation

By John M. Oskison

Railway Securities and the Panama Canal

Opportunities from the Investor's Standpoint

Investing for Profit

How to Interpret the New York Bank Statement

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Absorption of Gold by India—Forecasting Business Conditions—What an Investor Ought to Know—Public Utility Notes—Point for Investors—Bond Market Topics.

Bond Buyer's Guide—Traders' Department—Bargain Indicator—Investment Digest—Mining Stocks—Inquiries—Figure Chart—Essential Statistics—Situation Summarized—The Outlook

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Chat and Comment

Other People's Opinions and a Few of Ours

OUR March issue seems to have been appreciated, judging from the stack of letters it brought forth from both old and new readers.

For example, a New York man who should be one of the best judges, but who perhaps would not wish us to state his business connection, writes as follows:

"I want to compliment you on the fine appearance of your magazine. I am waiting for an opportunity to read it more carefully. I don't wonder that it holds a position of authority and influence with the investing class."

We must say, however, that we don't particularly cater to any class—don't take much stock in classes, anyway. We make the magazine with an eye to helping people in general. If they don't belong to the "investing class," we invite them to join it, or to prepare to begin to think over the consideration of the question of joining it, at least, by reading up on investment opportunities and methods.

* * *

HERE cometh and deposeth the owner of a general store up in New York state:

"Am very much pleased with the magazine and am getting many good points out of it."

Thanks! That's what we're here for. The next is a Jersey investor:

"Much pleased with the March number. You certainly have a splendid magazine."

We cheerfully admit it.

A member of a well-known New York Stock Exchange firm rises to remark:

"I think your latest number is one of the best you have put out. Judged by the number of 'bear' articles, we ought to be near the bottom, though. I have been through the number from cover to cover with a fine-tooth comb."

Let's "bear" this in mind and look back at it later on. That's the only test. Possibly we may be bearish at the bottom—time will show; but, by gum, we weren't bullish at the top, and that's what almost everybody else was.

* * *

THIS next investor lives in Oakland, California:

"I value the 'Magazine of Wall Street' very highly. Could not think of missing an issue of it."

Evidently a man of sound judgment. We'll try to see that he gets every issue.

Next comes a brokerage house in British Columbia:

"We trust by now you have received our 1914 subscription, which we overlooked sending in on time. Your periodical is read with much interest. Kindly mail all numbers we have not received."

They are keeping a file. Perhaps they have noticed that some of our back numbers command a premium and are planning a profitable coup a year or two hence.

* * *

IT would take quite a lot of these letters to tire us out, but possibly they are not so fascinating to you. We'll just wind up with one which distributes bouquets around in a way to cause some of our contributors to get decidedly chesty:

"I am quite sure that both the management of our splendid little magazine and its thousands of lively, interested readers will agree with me that Mr. F. H. Tubbs is the kind of teacher that inspires one to think for himself.

"It is too bad that the continuity of the 'Notes on Office Trading' series had to be broken by the loss of the intervening manuscripts; it detracts a great deal from the practical value to the trader, judging from what has already appeared.

"The series of studies by Mr. Chamberlain are most interesting, the best of their kind, I believe, that have as yet been offered. Mr. Fales' article and diagram on the relation of commodity

prices to investment and banking conditions interests one and opens up an apparently new field for study. Commodity prices are certainly at a dizzy height, abnormally high in comparison. That which is abnormal cannot long endure, Nature teaches.

"The coming tariff reductions will doubtlessly furnish the impetus for a good start on a downward commodity price movement, by opening the American market to foreign competition. This should cause shrinkage in security values, a general liquidation, a piling up of cash reserves, then an improvement in the security market.

"Last year was a record crop year. Record years do not follow in unbroken succession. This Winter we had little snowfall, and the absence of this snow covering on the soil (which warms and revives and revitalizes it much as a good sleep under sufficient covers does a human) is not propitious by any means. A crop failure in 1913 could cause a good rally in commodity prices in the latter part of that year and well into 1914, and a reaction in security prices following this rally. Big crops again in the following year, a free entry of raw and many manufactured products and an effectual curb on monopolistic control of natural and manufactured products should then give a period of low commodity prices upon which could be built the first major swing of a new grand cycle of bull movements.

"Perhaps this is attempting to suppose too much, but all speculation, great or small, is based upon supposition, so the 'long look ahead' is as logical as trying to forecast the next ten-point move.

"I was glad to hear from our old friend Scribner Browne again in the last two issues. That article on the use of stops showed that he has not 'gone back' any, in spite of the handicap of age which he penalizes himself with."

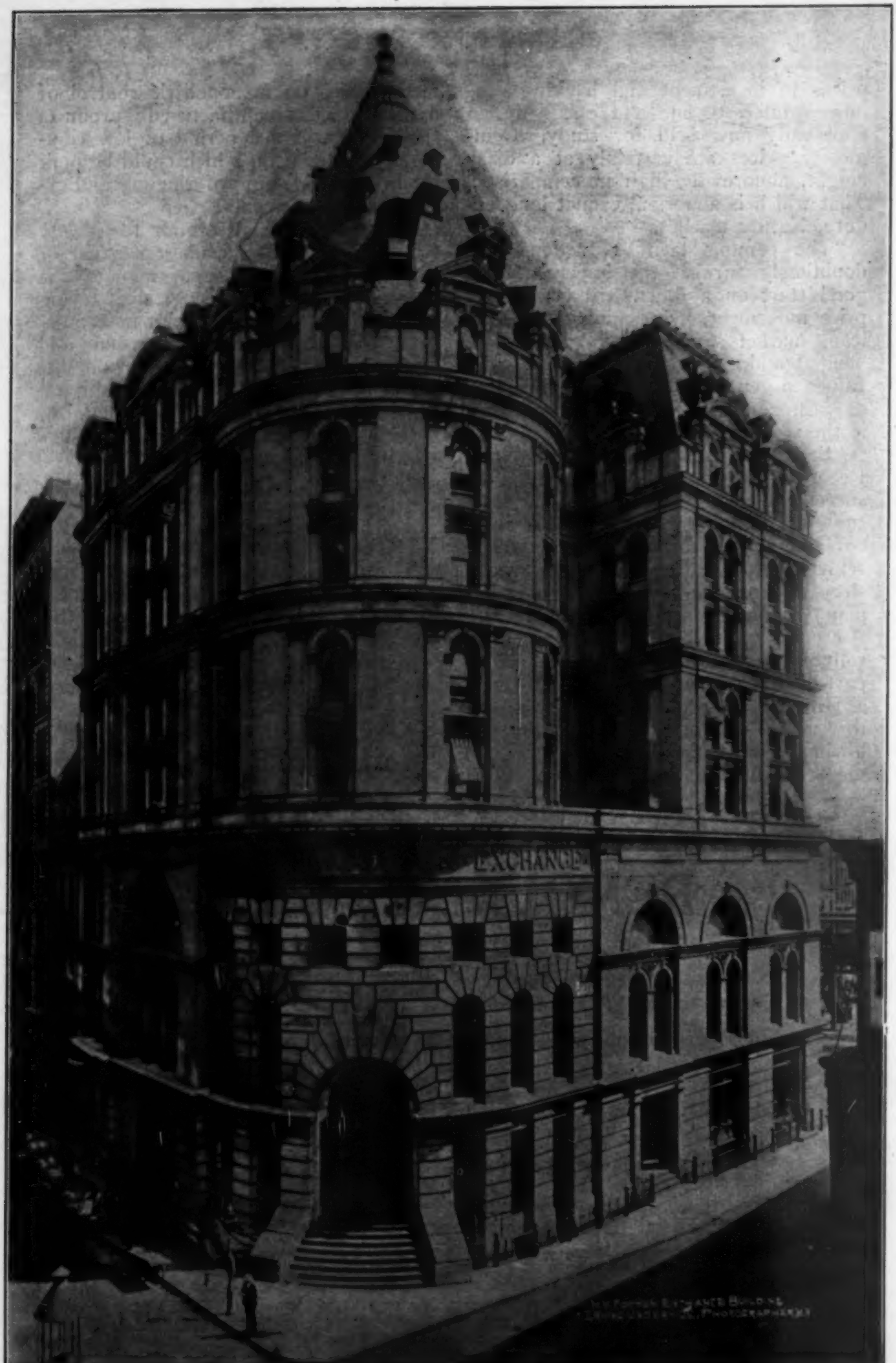
T. S.

* * *

HE'S a thinker, you see, and that's why he likes a magazine that stimulates thought. By the way, "Notes on Office Trading" will include everything that was planned, before the series is done.

We always like to hear the views of our readers on the financial situation and outlook and will gladly print those we can find space for.

Many men, many minds. There are no monopolies in ideas.



NEW YORK COTTON EXCHANGE.

THE MAGAZINE OF WALL STREET
(FORMERLY THE TICKER AND INVESTMENT DIGEST)

SCIENTIFIC INVESTMENT FOR EVERYBODY.

Vol. Eleven APRIL, 1913 No. Six

The Functions of Commodity Speculation

By C. T. REVERE

[We regard this article as an exceptionally clear and convincing statement of the usefulness of speculative commodity markets. It is especially interesting at this time, when bills are being introduced to prohibit such speculation.—Ed.]

PROBABLY the most persistent argument in favor of legislation against future trading in cotton and other commodities is found in the contention that speculation depresses the price and thus robs the producer of the fruits of his labor. The cotton manufacturers and consumers of other commodities also insist that speculation should be prohibited or restricted because it is responsible for undue inflation of prices.

Here you get the two leading arguments against speculation, either one of which nullifies the other. Both of these claims cannot be correct, but paradoxical as it may sound, both are economically incorrect.

As a matter of fact, the chief service performed by commodity speculation lies in its function of limiting extremes of fluctuations. This service is sufficiently valuable to counterbalance many of its ill effects. There probably will be little difference of opinion in regard to the claim that indiscriminate speculation by uninformed and inexperienced participants is more or less harmful. The losses or gains of individuals, however, are more than offset by the benefits derived by the community at large.

Three distinguishing features stand out clearly in regard to commodities which are made the basis of organized speculation:

First, these commodities must be in general, if not practically world-wide, use.

Second, the supply and demand for them must be uncertain.

Third, they must be subject, by the nature of uncertain supply and demand features, to wide fluctuation.

Passing by the first feature, which may be regarded as practically axiomatic, it is quite noticeable that there is no speculation in commodities in which the supply and demand remain constant. There is no speculation in commodities where the price is controlled by monopolies. One marked instance of this is sugar, which, in this country, is dominated by one or two powerful interests and consequently cannot be made the basis for general and organized speculation. In Europe, on the other hand, where the same conditions do not exist, sugar is the basis of a free and liberal speculation. Nor can there be speculation in manufactured products for the output of factories can be regulated. At one time the New

York Cotton Exchange formulated rules for the regulation of dealings in print cloths, but the movement died a natural death.

* * *

THE chief services rendered by organized speculation in commodities may be briefly enumerated as follows:

1. Limiting of extremes in fluctuations.
2. Facilities afforded for insurance against price changes.
3. Forecasting the future course of prices.

Regarding the first function, it may be stated that speculation does not put prices up or down. Prices go up or prices go down and speculation merely limits the extremes and prevents the swing from going as high or as low as it would without it. Chief Justice White, when a senator from Louisiana, defended future trading in a remarkable speech before the Senate, in which he defined speculation as the "governor of prices." Speculation is merely an economic gyroscope which tends to preserve the equilibrium of prices. It is responsible for innumerable minor swings and undoubtedly causes greater frequency of fluctuation, but on account of its almost continuous influence on values, it restricts the extent of wide sweeping movements. When crops are abundant and prices are low, the speculator comes in and buys for investment and thus prevents values from sinking as low as they would without this buying. The selling out of these purchases on the advance prevents prices from going as high as they would if foresighted investors had not bought so freely.

Professor Emery, in his work on speculation on the Stock and Produce Exchanges, states that one of the greatest benefits in regard to effect upon prices lies not so much in the greater stability of prices, but in the greater graduation in price fluctuation. Even if it were to be admitted for the sake of argument that prices in the long run would show as wide fluctuations as without speculation, it is noticeable that these extreme points are now registered by more steady gradations. Professor Emery says:

"It needs little more than the mere statement to show the advantage of a speculative system in this matter. There are always some shorts ready to buy in as prices first fall and some bulls ready to sell out as prices first rise, and these forces are very effective in graduating prices. So perfectly does the system work that a sudden change in price of any importance is very rare."

Probably the greatest service to the public at large is rendered by the professional "bear" or short seller. He is considered the traditional enemy of the producer, who argues that by selling something that does not exist, the bear furnishes an artificial increase in the supply, which necessarily depresses prices. These arguments, however, do not take into consideration the fact that short sellers represent ultimate purchases and that the bull speculator and the bear speculator differ from one another only in the initiation of their transactions. The bear sells at a certain price, or contracts to deliver a commodity at a certain figure, in the hope of buying back his contract at a lower level, while the bull buys, or agrees to take a commodity at a certain price, in the hope of being able to dispose of his holdings at a higher price.

Contrary to the general impression, the bear is really the more desirable citizen of the two. It is he who takes a chance on making short sales when prices are unduly high and thus keeps values within reasonable bounds. It is the bear also who is busy covering his short sales when prices are unduly low and thus prevents values from seeking still lower levels. It is likely that the depression following a boom in real estate would be of much shorter duration if it were possible for bears to make short sales of town lots and suburban villa sites which could be covered on a decline.

* * *

INSURANCE against price changes, or the shifting of risk from the merchant class to the shoulders of the speculative element is one of the most valuable functions performed by speculation and, in fact, furnished the incentive for the development of speculation. In his notable work on economics, President Hadley of Yale says:

"The industrial development of the last three or four hundred years, rightly

interpreted, is an account of the reasons which have led society to put the control of its industry into the hands of a body of speculative investors."

The evolution of speculation is a perfectly natural growth, resulting from the necessities of a more complicated civilization. Long ago the producer learned that he would do well to stick to his occupation and not attempt to consume his raw material. Manufacturers, in most instances, have found it better to buy their raw material and specialize on the manufacture. Until the last fifty years the great world merchants handling staple commodities, such as cotton, coffee, grain and cured meats, were forced to distribute these commodities and stand the risk of the change of price themselves. In certain products the risk was not great. In the handling of small crops, the output of factories and mills, they could calculate fairly well the chances they were taking. In the great staple products of the soil the climatic uncertainties and all the changing elements of supply and demand made the work of distribution extremely hazardous.

Even the large profits the merchants were compelled to exact did not always compensate them for the risks they ran. Under the methods of half a century ago the grain merchant was forced to figure on a margin of five to ten cents per bushel on wheat. Today this margin is cut down to a fraction of a cent. The cotton dealer and the cotton exporter are now able to buy within fifty cents per bale of the price in the central market, where formerly a margin of $2.50 or $3 per bale was required. Sometimes, cotton is even bought in the South and hedged in Liverpool at the same relative price.

Perhaps not the least important result of this method of putting the burden of risk on the speculator and thus providing insurance against loss is the increased borrowing facility which is afforded. Holdings of grain in elevators or cotton in warehouses make most desirable collateral. Money can be obtained on products thus hedged when some of the best securities are under suspicion. Even the producer is benefited by the facility with which capital can be obtained. He may not own the warehouse receipts, but the mere fact that the products of farmers may be insured against loss through speculation and the free, open and continuous market maintained for purchases and sales enables him or the middleman to whom he has sold, to borrow at any time the request is made.

Only through the buying and selling of hundreds and perhaps thousands of speculators can such a market exist. The broader the market and the more sensitive the fluctuations, the greater becomes the facility for providing insurance against loss and securing a basis on which banks will readily make loans on the great staple commodities.

* * *

AFTER all, it is in its prophetic or heraldic capacity that speculation confers some of its greatest benefits, and for this very reason is subjected to the most violent denunciation. Speculation is the Cassandra of modern commerce—the prophetess that always forecasts the future correctly and in the beginning is never believed. Individual speculators often, and, in the opinion of many, usually, do make erroneous forecasts, but speculation itself is always right, for, in any great tidal swings of markets the salient facts are always discounted.

Speculation, as may be inferred from its Latin derivation, is supposed to see ahead. Take, for instance, the question of a probable crop shortage—say a yield of 500,000,000 bushels of wheat where 650,000,000 bushels are needed. If the general public specialized in such subjects as the size of the wheat yield and the milling requirements, and if society were formed on a Utopian basis, there would be a general effort to husband the supply by curtailing the demand to be made upon it. But the general public does not specialize on wheat supply and demand, nor does anyone propose to eat less bread until he has to.

Let us say wheat prices are around 80 cents per bushel and that is no speculation. Probably 450,000,000 bushels are consumed before there is a realization of impending famine. The result would be inevitable. Wheat would sell during the last three months of the season at $2 or more per bushel and half the population would go hungry.

Speculation goes at the matter in a

forehanded way. As soon as a few well informed speculators come to the conclusion that the crop is short, they begin to buy and there is an early rise from 80 cents by gradual stages to possibly $1. The market excitement brings forth some extravagantly low predictions, and crop estimates of 450,000,000 bushels are circulated. The country prepares for a greater shortage than really exists, and when the scarcity incident to a yield of 500,000,000 bushels is realized prices go down instead of up. In market parlance the crop shortage is "discounted" at a price probably not in excess of $1.10 per bushel. More than 500,000,000 bushels of wheat were marketed. Part of this was "speculative" wheat for speculators bought contracts amounting to many millions of bushels which were thrown on the market in addition to the 500,000,000 bushels of wheat that were produced. Consequently, while people generally were not able to buy as much wheat around 80 cents as they would have without speculation, they were not forced to pay extravagantly high prices, because speculation came in and gave warning of impending scarcity, and more than that, forced curtailment by bidding up the price.

Just as the pinch of scarcity is felt in a modified form long before the situation becomes acute, so the consumer through the medium of speculation, is able to take advantage of prospective abundance before it becomes an actuality. This phenomenon may be explained by the statement that speculation always looking ahead, foresees a bumper crop for the new season and is willing to sell ahead of this prospective surplus long before it is realized.

* * *

IT is not unlikely that a thorough knowledge of the evolution of speculation, showing its growth in the last two or three centuries, and the economic services performed by it would do much to modify the present antagonism existing in Congressional and State legislative circles. The modern system of "future" trading, in its organized form is barely half a century old and doubtless has some imperfections. Its faults, however, are faults of detail and not of principle, for the principles underlying the method have been worked out by the world after hundreds of years of steady progress toward a definite end, and the world makes no mistakes when it proceeds in this manner.

From Shirt Sleeve to Shirt Sleeve

WHILE the recent agitation against concentration of capital undoubtedly has considerable justification, it is nevertheless true that many have an erroneous idea of the character of that concentration and how it came about.

For example, J. Pierpont Morgan, generally considered the head of the so-called "Money-Trust," is looked upon as a man whose wealth and position are chiefly the result of arbitrary power as the representative of capitalist interests.

This is hardly the case. J. S. Morgan, J. Pierpont Morgan's father, was a struggling clerk in a draper's establishment until he was 38 years old. He worked early and late at a small weekly wage, and although he was frugal in his habits, his savings were necessarily small.

At the age of 38, he quit his job, went to Boston, and established a small commercial house with his savings. He was cautious in his methods and careful in watching his customer's interests. His word and his advice could be absolutely relied upon as sound, and he had a genius for the business of banking. He at length came to New York and later went to England, where he gained the confidence of financiers and became a partner in the house of George Peabody & Co. After Mr. Peabody's death the name of the firm was changed to J. S. Morgan & Co.

J. Pierpont Morgan entered his father's bank at seventeen years of age; learned all the details of the work, and took over the business at his father's death. He inherited perhaps $10,000,000, and by continuing the conservative methods of his father, has increased that sum, doubtless, to over $100,000,000 and has the implicit confidence of large investors to a greater extent than any other financier in the United States, if not in the world.

Oliver Wendell Holmes says somewhere that it is three generations from shirt-sleeve to shirt-sleeve. Perhaps that is no longer true, but at least the maxim has not yet been disproved in the Morgan family. Even the younger Morgan is only two generations from the shirt-sleeve.

Side Lights on Wall Street

By "KODAK"

IN last month's issue of this magazine I quoted a prominent international banker as saying that the market factor of greatest importance was the monetary situation, and recent stock market developments have proved the accuracy of his judgment. World-wide stringency of money is the principal topic of financial discussion and exchanges all over the country have been depressed because of the stringency.

Berlin has recently been bidding 6½ per cent. in our market for gold, and the call rate in Berlin at this writing is 9 per cent. Berlin has been a heavy seller of our securities. The English discount rate has now been at 5 per cent for twenty weeks, which finds no parallel since 1866. British consols at this writing are 73⅛, practically the lowest price in 90 years. French rentes are 89.17½, while at this time last year they were 94.95, and two years ago, before the Agadir incident, they were 99.20. Russian and Turkish bonds and Government bonds of practically all other nations show similar depression. Our call money rate is now 4½ per cent., while at this time last year it was 2½ per cent., two years ago 2½ per cent., three years ago 3 per cent., and four years ago 2 per cent.

This stringency in money is due in part to industrial expansion, but in far greater measure to the drain of the Balkan war and the hoarding of European investors, who are fearful that a far greater conflagration will start. Germany has probably hoarded $150,000,000 in gold, France $150,000,000, Austria $75,000,000, and the hoarding by investors in other countries brings the total amount of gold withdrawn from circulation up to between $500,000,000 and $600,000,000. A settlement of the Balkan war, which seems assured, should allay the fears of European investors, and while the financial requirements of European countries are tremendous, with the settlement of the war, the monetary situation will, in the opinion of international bankers, rapidly adjust itself.

* * *

GOVERNOR SULZER'S four dollar transfer tax bill will, it is announced, be allowed to die in committee. This was a foregone conclusion. Opposition to the bill came not only from Wall Street, but from every part of New York State, and in fact from all over the country. Governor Sulzer was overwhelmed with protests, and it will be many a day before another such bill is proposed by any of our legislators. There is some talk in and around Albany of proposing a tax on brokers, but if such tax is imposed, brokers are almost certain to make the burden of it fall on clients, either through higher commissions for doing business or in some other manner, for the reason that business has been so poor for the past two or three years that many and perhaps a majority of the brokerage concerns in Wall Street have not been paying expenses.

* * *

J. P. MORGAN'S movements will probably be more closely watched from now on than at any previous time in his career. Mr. Morgan has practically severed all connections from active business, but Wall Street, particularly the trading element, have made up their minds that there must be a crush in securities when Mr. Morgan dies. I am told that although none of the members of the Morgan firm regarded Mr. Morgan's condition as serious recently, the advisability of forming a $20,000,000 pool to support the market in case his condition should become serious was actively discussed by interests affiliated with Morgan.

The Situation in the Iron and Steel Industry

By JAMES H. BROOKMIRE

THE Iron and Steel industry is generally and properly known as the basic industry of the country, and since the ups and downs in the country's business largely consist in the alternating periods of expansion and contraction in iron and steel, it is most natural that investors look to Steel common to find their cue in judging the tendency of the stock market.

The Pig iron industry excels as a business barometer. Pig iron production is constantly regulated by human volition and may almost instantly be increased or checked. The production, consumption, and prices of iron and steel not only indicate in particular the amount of construction work being done, but also furnish a reliable index of business expansion and contraction in general. Furthermore, the pig iron industry usually gives warning of approaching security liquidation, this being presaged either by a perpendicular advance in prices coincident with increasing production, or by a simultaneous decline in both production and prices after production has been increased without a corresponding increase in iron prices. Since security liquidation always precedes business reaction, the pig iron industry, in its relation to the movement of the security market, is a reliable business barometer.

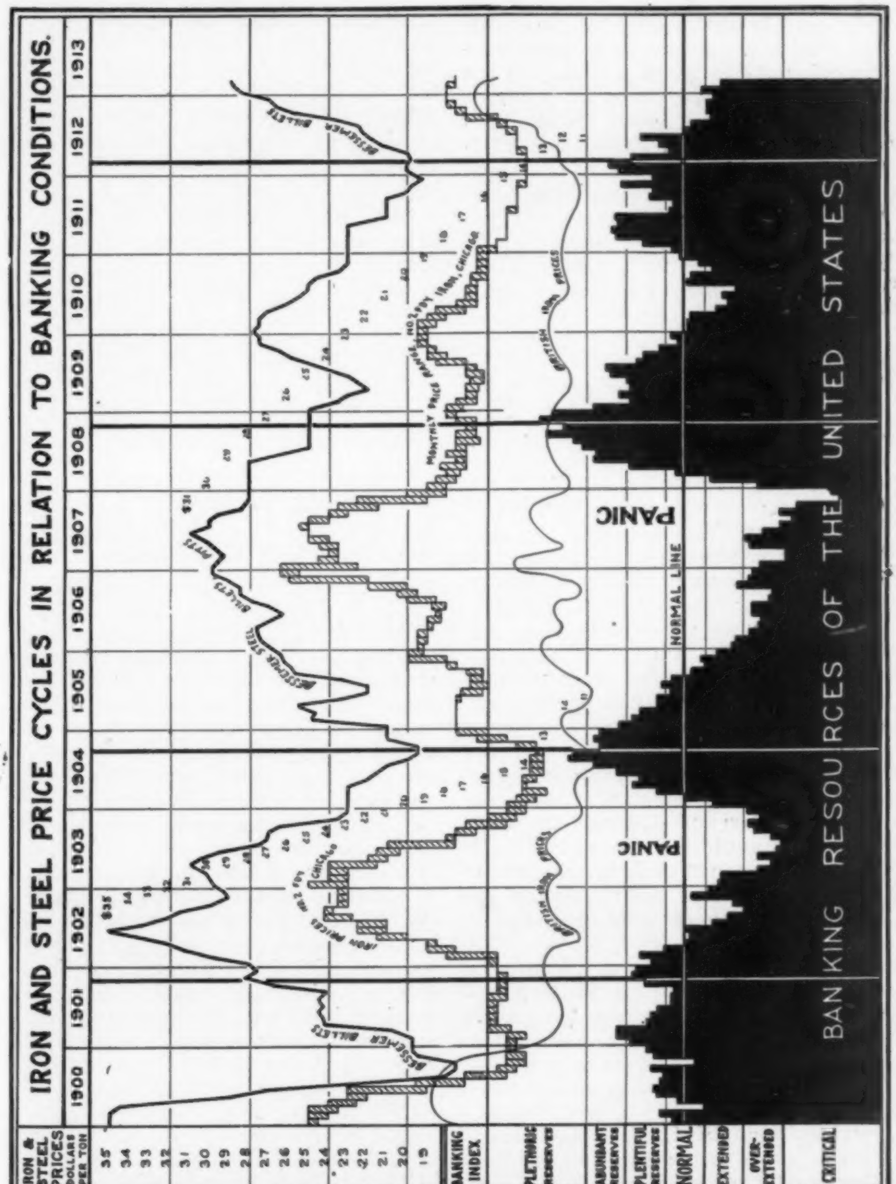
THEORY.

THE ups and downs in the iron and steel industry conform almost perfectly with the expansion and contraction of banking credit during successive credit cycles, during each of which business conditions pass through four stages or periods as follows: (1) Improvement, (2) Prosperity, (3) Liquidation, and (4) Depression.

The course of the pig iron industry through a normal Credit Cycle is as follows: In the beginning of the first period of the Cycle, the period of Improvement in Business, Production having declined during the preceding period of Business Depression, is much less than the normal demand. When the outlook improves, the marked increase in consumption exceeds that in production, this furnishing a basis for a rise in prices, which in turn stimulates production.

Producers can frequently anticipate increased demand, but if production is increased when prosperity seems imminent and there is no recovery in price, it indicates that consumers are not ready to go ahead, and that the producers have made a false move. As genuine improvement appears, however, there is a great demand for equipment for factories and particularly for railroad building, the object of which is to increase production and extend the means for the exchange of products. After a time the sources of capital available for such purposes are exhausted and credit becomes over-extended. Business activity becomes intense and the incessant demand for money, materials, and labor causes a rise in prices to such an extent as to make further construction extremely costly, or even unprofitable. Pig iron prices undergo a perpendicular advance.

By this time the consumption of iron, steel, etc., is exceeded by production and shortly after reaching the maximum, pig iron prices decline rapidly. For various reasons the manufacturer is reluctant to curtail operations, and production continues to increase after prices have begun to fall. But although there is always an interval between a decline in prices and a decrease in production, such a reaction is bound to come, and hence we can be reasonably certain that a period of liquidation will always follow a period of great prosperity. The Cycle has nearly run its course having passed through three periods, namely, Improvement, Prosperity, and Liquidation. The fourth and last period of the Cycle, the period of Readjustment, then appears, and continues until merged with the beginning of the period of improvement of a new Cycle.


IRON AND STEEL PRICE CYCLES IN RELATION TO BANKING CONDITIONS.
IRON & STEEL PRICES DOLLARS PER TON
1900
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1911
1912
1913
BESSEMER BILLETS
BESSEMER STEEL BILLETS PITTS
IRON PRICES NO. 2 FDY CHICAGO
MONTHLY PRICE RANGE NO.2 FDY IRON, CHICAGO
BRITISH IRON PRICES
BANKING INDEX
PLETHORIC RESERVES
ABUNDANT RESERVES
PLENTIFUL RESERVES
NORMAL
EXTENDED
OVER-EXTENDED
CRITICAL
NORMAL LINE
PANIC
PANIC
BANKING RESOURCES OF THE UNITED STATES

THE INDUSTRY SINCE 1900.

BY referring to the accompanying chart it will be seen that since 1900 the iron and steel industry has passed through three cycles, which may at the same time be called Cycles of Trade or Cycles of Banking Credit. The first two of these, the cycles of 1900-04 and 1904-08, were typical examples of a normal trade cycle, for in each cycle a period of trade expansion was forecasted by a rise in security prices, and in the years 1902 and 1906 respectively a perpendicular advance in pig iron prices was the signal for a period of security liquidation, which in turn forecasted a reaction in business.

The cycle of 1908-12, however, did not develop normally, for although a period of improvement preceded by rising security values occurred in 1909 as in preceeding cycles, business did not continue to expand until a perpendicular rise in pig iron prices foreshadowed a period of liquidation in securities and business, for in 1910 the decisions of the Commerce Commission against freight rate increases, together with the growing uncertainty of the status of industrial corporations under the Sherman anti-trust law, undermined business confidence and checked enterprise and expansion. And when the railroads, the country's largest buyer, proceeded to curtail purchases during 1910 and 1911, a decline in the iron and steel industry began which continued until the end of 1911, so that the present cycle began early in 1912 with business well liquidated and iron and steel prices about the lowest in over a decade.

With business thus on a firm foundation and abundant reserves in the banks, the time was ripe for expansion, and in the fall of 1911 the Steel Corporation started out to "get the business," increasing its unfilled orders from 3,600,000 tons on October 1, 1911 to over 5,000,000 tons on January 1, 1912 and nearly 8,000,000 tons at the beginning of 1913. This rapid increase in orders was largely due to the needs of the railroads, which had been following a policy of retrenchment and economy for two years, and was also stimulated by the bumper crops of 1912. The extent to which the export trade figured, however, must not be overlooked, for European conditions have figured largely in determining the trend of affairs in the United States during 1912 and will likely figure as a potent influence during the coming year, though perhaps in an opposite direction.

It will be recalled that after the panic of 1907 business began to expand almost immediately in the United States, though a reaction set in at the beginning of 1910 after only a year of improvement. In Europe, however, recovery was not so immediate, the after-panic liquidation continuing until the middle of 1909, after which there was general and marked industrial expansion during 1910, 1911, and 1912, though now the tail-end of the boom seems to have been reached, the trend of affairs being indicated by the fact that the average level of English prices, using the London Economist Index number, after increasing 28 per cent. from the summer of 1909 to the culminating point in 1912, has recently been showing a reactionary tendency, particularly in metals and other industrial commodities.

The effect of this European expansion upon American conditions has been twofold: In the first place it caused such an expansion of banking credit abroad that Europe has been drawing heavily upon the New York banks for a year past, and the resultant scarcity of money has compelled our banks to call stock exchange loans pretty generally, which fact is responsible for the recent decline in security values, to an equal or greater degree than political uncertainty.

In the second place, and what concerns us here primarily, the industrial expansion abroad caused a rapid advance in foreign iron and steel prices, which stimulated a considerable increase in our exports of iron and steel during 1912, as shown in the table on the next page.

More direct evidence regarding the increase in foreign prices during the year 1912 is furnished by the accompanying chart, which shows a perpendicular advance in the quotations for British pig iron warrants during 1912, although since the beginning of the year 1913 the money stringency which bids fair to cause liquidation of business abroad, par-

Iron and Steel Exports from the United States.

	Tonnage 1912.	Tonnage 1911.	Increase per cent.	Value 1912.	Value 1911.	Increase per cent.
First quarter	574,870	519,641	10.6	$64,728,283	$60,021,174	7.8
Second quarter	848,153	579,927	46.4	79,635,902	65,843,760	21.0
Third quarter	804,525	521,321	54.3	73,649,199	58,002,466	27.0
Nov. and Dec.......	483,952	374,011	29.4	51,679,484	41,043,894	25.9

ticularly in Germany, has caused a panic among foreign pig iron speculators, and owing to prospects of a declining market all buying in the trade now is for immediate requirements only. Some idea of the extent of credit expansion abroad may be obtained from the following table, showing the percentage of reserve to liabilities of the Bank of England for the month of February during the past five years:

Ratio of Reserve to Liabilities, Bank of England, for Month of February.

	1906.	1908.	1911.	1912.	1913.
First week	46.12	54.50	53.25	52.94	47.02
Second week	45.87	53.50	52.75	51.24	45.80
Third week	44.62	53.37	51.87	48.64	46.32
Fourth week	43.12	49.62	49.87	45.97	43.61
Average	44.93	52.75	51.93	49.70	45.69

Not only is the English gold reserve the lowest in six years, but the official rate of the Bank of France is 4 per cent., the maximum rate during the panic of 1907, and during the past thirty years never exceeded except in two years, 1888 and 1899.

Turning our attention to domestic iron and steel affairs, it will be seen from the accompanying chart that steel billets have had an advance of $9.50 and pig iron of $4.00 per ton during the past year. It will also be noted that the prices of billets at the beginning of 1913 show firmness while pig iron prices showing a softening tendency. The question which the trade is now asking is, Does the firmness in steel prices presage a continuation of the present prosperity, or does the decline in pig iron prices forecast a reaction in business? In answering this question it may be said that neither view is tenable, for the difference in the action of the two markets is due to technical conditions in the two different departments of the industry, while the future trend of both iron and steel prices can only be judged by a resort to the study of fundamental conditions.

FORECAST.

IN making a forecast the three factors of prime importance to be considered are crops, politics and money conditions.

Regarding money conditions, the present outlook depends almost entirely upon developments in Europe during the next few months, and since the state of affairs there is still uncertain any forecast of money conditions at the present time must be rather indefinite, or at least conditional. About all we can say is that if European peace is declared, large amounts of money will be released from hoarding on the Continent, and the situation greatly relieved. If business in Europe liquidates sufficiently during the coming months, moreover, a large amount of investment capital would be made idle in Europe and the foreign banks would be able to send gold to the United States and thus assist a continuation of our present prosperity, perhaps well into the year 1914; although if foreign peace is not declared and business in England and Germany liquidates too gradually to relieve the financial situation, we will run into a bad money situation next fall.

Present indications are, however, that Europe must liquidate, for not only are banking conditions on the Continent strained with a credit crisis imminent in Germany, but also, although English manufacturers are still importing largely of raw materials, it is likely that the British export trade will soon suffer from the effects of the recent commercial disaster in Austria and the Balkans. In fact, we are inclined to interpret the recent decline in iron and steel prices in

Germany, Holland, Belgium, and Great Britain as harbingers of a general trade reaction now in prospect abroad. In this connection it is worth noting that while liquidation in Europe will be favorable to business expansion in this country in that it will relieve the money market, at the same time it must be remembered that the expansion of our steel business during the past two years has been based measurably upon the export trade, so that the steel business will not be able to continue its present gait unless business in the United States expands sufficiently to offset the decline in the export trade contingent upon a reaction in business abroad.

Regarding politics it seems pretty certain that President Wilson is going to push through a program of banking legislation of a scientific character, and this is a hopeful outlook in itself, and in marked contrast with the Democratic "free silver" activities of twenty years ago. Regarding the tariff, it is expected in the long run that the benefits from lower duties will about offset any injuries which may result, though if the duties are lowered considerably next summer it may facilitate the dumping of foreign merchandise in our markets at a time when Europe is liquidating. In the matter of trust prosecution it appears that there is some trouble ahead, and unless Mr. Wilson's trust policy is clear cut and definite, this may be set down as the most unfavorable of political influences.

Regarding crops, it may be said that as a result of last year's abundant harvests, a large demand for steel products will be forthcoming during the coming months both from the agricultural districts of the country, and also from the railroads, for a large proportion of the crops remains to be marketed, thus insuring a large amount of traffic to the railroads until next summer, which means that orders from the railroads will furnish the steel industry with a good volume of business throughout the present year; and if the crops of 1913 are satisfactory, the needs of the railroads should guarantee a continuation of the present prosperity well into 1914, for there is no doubt that they are still short of equipment.

The following table of freight cars ordered and built during the past decade indicates that the steel mills will be kept busy during the year, for the number of cars ordered during the past two years has largely exceeded the number built, and of the 235,000 cars ordered in 1912, 110,000 were ordered in the last quarter of the year:

Freight Cars.

Year.	Ordered.	Built.
1901	193,439	136,950
1902	195,248	162,599
1903	108,936	153,195
1904	136,561	60,806
1905	341,315	165,155
1906	310,315	240,508
1907	151,711	284,188
1908	62,669	76,555
1909	189,360	93,570
1910	141,204	180,945
1911	133,117	72,161
1912	234,758	152,429

The Steel Corporation reports unfilled orders on hand March 1 at 7,656,714 tons, a decline of 280,000 tons since the first of the year, but 40 per cent. more than was reported a year ago and about 125 per cent. above the unfilled tonnage reported at this time in 1911, 3,100,000 tons. At this stage of the cycle buyers generally have their requirements well provided ahead so that although specifications will be heavy and the consumption of steel enormous for many months to come, it will be a normal condition if new business should fall off considerably, and especially is this likely at present when the uncertain political outlook warrants a conservative policy. The mills, however, are booked far ahead and a further decrease of over one million tons could occur without impeding the present rate of activity.

To sum up: Banking conditions are too extended and politics involved in too much uncertainty to warrant any definite prediction as to the immediate future of the steel business. A good year for 1913 is already assured, however, and if this year's crops prove satisfactory, the outlook may be considered propitious, perhaps brighter than in any other line of business. In fact, the healthy condition of the steel industry is our best cause for optimism at this time of political and financial uncertainty at home and abroad.

American Railways and the Panama Canal

By JOSEPH N. FINING

Secretary of the National Citizens' League, St. Louis

[The opening of the Canal will make considerable changes in the railroad situation. In this article Mr. Fining, who has made a special study of the subject, explains as to what those changes will be.—Ed.]

WHEN the two great oceans are connected by the marine highway through Panama, and commercial nations are favored with a short thoroughfare to all the boundaries of civilization, it is inevitable that momentous changes should result.

Two probabilities—two certainties, it might be said, without qualification—stand conspicuous. The canal, forming a short path, will create new sources of supply and new markets, and it will increase the trade of present sources and markets. The second indication is the development of new routes of trade. It may be assumed that the changes in the courses of the traffic movement will be regulated mainly by facility and cost.

As the steam railroads provide the conveniences for moving traffic between the ports and inland centers, they must feel perceptibly the influence of the canal in changing freight routes. Were there a comprehensive system of inland waterways of deep channel, enabling seagoing vesseles to penetrate the interior of the United States, the railroads would have occasion for some alarm—notwithstanding that, in present circumstances, commerce does not like slow progress in transportation. Without, however, strong competition on the inland rivers, the steam carriers are compelled to acknowledge that transitions relating to international commerce will, by changing or even revolutionizing the courses of trade, force into existence new trunk routes on land.

These new conditions naturally will affect the securities of American railroads. Revenue from transportation constitutes the vitality of the carriers. If the volume of freight increases, and the rates for service are what they should be, the earning power is magnified; and, by contrast, any substantive or apparent diminution of the traffic and revenue tends to lower the investment value and attack the speculative prices or quotations of the stocks and bonds. Marked tendencies toward signal changes in the routes taken by traffic forecast either increases or decreases, to certain groups of carriers, in both volume of freight and amount of income.

The genius that always has guided admirably the destinies of American railroads has exemplified its initiative in mastering the fundamental, shifting, rather revolutionary problems caused by the building of the Panama canal. Directing executives of the railroads have taken precautions against the divers possible changes in the trade routes, and if any provision of importance has been overlooked or omitted, the want is not apparent.

Both diplomacy and strategy are exhibited in the work done by the railroads, in the improvements made, in the extensions built, in the plans executed, while the canal has been under construction. The maxim, "in time of peace prepare for war," has been reduced to an actuality by the carriers of the South and the West, as well as by several in the East.

The struggle for tonnage involves four groups of carriers. First in the list come the trunk lines running from Chicago and St. Louis to the Atlantic ports. Next, in the territory east of the Mississippi, are classed the lines running from Chicago and St. Louis, and certain intermediate points, like Birmingham, to the South Atlantic and Gulf ports. The third array includes the lines stretching from Chicago and St. Louis to the Northern and Central Pacific ports. The fourth group comprises the roads going down from Chicago and St. Louis to Gulf and Southern Pacific ports.

Vessels, it should be understood, take and leave freight at ports on the Atlantic, Gulf of Mexico and Pacific coasts, and from any port to any port they may haul merchandise and raw material

through the canal. And so it happens that the energy of the traffic department may succeed in routing freight through the port that will give the tonnage to that department's road. The competition promises to resolve itself considerably into the ability of a carrier to solicit the freight at the source.

Marine transportation is cheap. Consignments to China might go via an Atlantic port, or a Gulf port, or a Pacific port, although the logical route would be via a Pacific port. Freight for Europe might be shipped by way of an Atlantic port or a Gulf port. Freight for Latin-American or Australia might move via any port. Traffic originating in the heart of the United States, and destined for an interior city, might go through one port and come back through another, on a combination rate between a steamship company and two groups of carriers.

By railroad executives it appears to be taken for granted that foreign freight originating east of Indianapolis and north of the Ohio river will move through New York, Baltimore, Philadelphia and Boston, and a large volume of the freight from St. Louis and Chicago will be retained by the Eastern trunk lines. These carriers had practically completed their systems, and they had little need of making special preparations. The paramount aim of the Eastern trunk lines naturally will be to preserve the supremacy of the North Atlantic ports in competition with the Gulf ports, or, to be specific, in competition with the carriers operating to the Gulf ports.

The striking prospect, attributable chiefly to the Panama Canal, is the bright hope gleaming in the Central South. Although it is known that the Mississippi Valley is the principal agricultural producing territory in America, capital is comparatively little acquainted with the marvelous industrial resources of this great region. Missouri, Illinois, Indiana, Arkansas, Kentucky, Tennessee, Alabama, Arizona, New Mexico and parts of Louisiana and Texas, contain virtually all the natural resources entering into manufacture. The development of industrial enterprise in these commonwealths will, of course, be a factor in determining rail trade routes; and, when the development reaches a somewhat better stage, the Gulf ports steadily will gain on the Atlantic.

In the section south of the Ohio river and east of the Mississippi river, the railroads are endeavoring to route freight through the South Atlantic and Gulf ports. The Southern Railway, operating exclusively in the Southeast, offers an excellent example of preparedness. This line taps ports in the Chesapeake Bay, and at four other points on the South Atlantic coast, and at New Orleans and Mobile on the Gulf of Mexico. It has direct lines from St. Louis and Cincinnati to the Gulf and an allied road to Chicago.

Other systems in the Southeast, while not quite so extensive as the Southern, have strengthened their positions by traffic agreements with roads to Chicago, St. Louis and the grain fields, and their object evidently is to promote the growth of the Gulf ports. On account of the kinds of freight originated, the Southeastern lines have much to gain and nothing to lose, by the opening of the Panama canal.

For studied strategy, nobly realized, the Southwestern roads are entitled to the palm of honor. They have worked, and built, and contrived, until their maneuvers and achievements have dazzled observers. The late Mr. Harriman, Mr. Yoakum, Mr. George J. Gould and Mr. Ridley and Mr. Stilwell have demonstrated the virility of American executive genius.

As an illustration of preparation for the opening of the canal, behold the achievements of Mr. Harriman, whose farseeing mind looked clearly into the future. The Harriman system extended from New Orleans to Los Angeles, and thence up along the Pacific coast to Seattle and Tacoma, and from Omaha and Kansas City to Portland and San Francisco. The lines could convey freight from any important point in the Mississippi Valley to any port on the Pacific coast; but these facilities were not sufficient. It was imperative to have a road from Chicago and St. Louis to the Gulf, and Mr. Harriman obtained control of the Illinois Central. Not yet satisfied that every precaution had been taken, Mr. Harriman built a line in Mexico, parallel-

ing the coast of the Gulf of California, down to Tepic, near Guadalajara. In this manner Mr. Harriman arranged for the rail-haul, and the long haul, from the producing centers and originating markets of the Mississippi Valley to any and every port on the Pacific Ocean, and the foremost ports on the Gulf of Mexico. The Harriman lines were intrenched west of the Mississippi river, and to complete them the only work undone was the extension of the Union Pacific to Chicago and St. Louis—a project which competition will necessitate.

Mr. Yoakum took rank with Mr. Harriman in his exploits. By extensions, purchases and agreements he equipped the St. Louis & San Francisco with connections to the west coast of Mexico, and a line paralleling the coast of the Gulf of Mexico from New Orleans to Brownsville, at the Mexican boundary, where connection is effected with the National Railways of Mexico for Eastern and Western ports. Probably before the canal is opened, he will accomplish his long-cherished plan for a line from Memphis to New Orleans, for the Chicago-St. Louis-New Orleans road.

Mr. Gould already had tracks to Gulf ports and international crossings at the Mexican frontier, affording access to the Eastern and Western ports in Mexico, and he completed his system by building the Western Pacific out to San Francisco.

The Santa Fe, with Mr. Ripley at its head, built a low-gradient line south of its main road, and the system touches the Gulf and Southern Pacific, as well as connects with the Mexican carriers at El Paso.

Mention should be made also of the Stilwell road, the Kansas City, Mexico & Orient, which runs through the Southwest to the Mexican port of Topolobampo.

All the Northwestern lines are ready to protect their interests. The principal systems in this territory have built extensions to the Pacific coast. The Hill railroads probably have the best outlook in the Northwest, due mostly to their number of termini in the Mississippi Valley. In order to gather freight that might go either South or East, Mr. Hill extended the Burlington down to the Ohio river.

Briefly, it may be held that the relationship of the American carriers to the Panama Canal depends primarily on these factors: The sources of supply of raw materials and finished products; the markets; international trade competition; domestic trade competition; competition between rail and water carriers; the development of internal traffic waterways; combination service between rail and water carriers; the opening of new sources and markets; and heavier traffic to and from existing sources and markets.

Indications point to closer relations between railroad and steamship companies. Each group of carriers will be obliged to protect their own ports, and promote the growth of these ports. By procedure such as this there will be at least no decline in the volume of traffic, and therefore no loss of gross revenue.

It is hard to see how the Panama canal could impair the securities of American railroads. To the extent that traffic and revenue affect securities, there seems to be nothing to fear. If the business between American ports, by rail and water combinations, brings about a decrease in the long-haul, transcontinental rail tonnage, it probably will result in an increase of the short-haul traffic, and the outcome should be about equalized. The additional tonnage to and from new sources and markets should overcome any other loss that might arise.

Concerning the Eastern, Southeastern and Northwestern systems, they may count on a profitable tonnage. The Southeastern and Northwestern roads have the benefit of territorial development, and the Southeastern carriers touch both South Atlantic and Gulf ports.

The Southwestern and Southeastern lines, especially those operating through the Mississippi Valley to ports on the Gulf of Mexico, have the best prospects, immediate and future. The development of the Gulf ports should help them at once, and progress in manufacture is their certain outlook.

Judged by conditions and indications, the Panama canal should not influence railroad securities adversely, but, on the contrary, should be beneficial in enhancing values.

Sugar and the Tariff

EDITOR of THE MAGAZINE OF WALL STREET: Mr. Byron Holt's articles in the January and February numbers of your magazine concerning the effects of tariff revision on the more prominent industrial corporations have been of intense interest to me, as they must have been to all your readers. Mr. Holt's past prophecies have come altogether too near a complete realization in these days of social unrest, for us to be indifferent at this time to his new conclusions, be they ever so radical.

However, on studying these articles there were two important elements in the situation of which I felt uncertain: whether tariff revision would be as drastic as supposed, and whether the actual revision, when determined upon, would merely lessen the margin of profit (which might subsequently be made up through increased consumption due to lower prices) to the benefit of the consumer, or cripple American industry through actual foreign competition supported by concededly lower production costs.

Therefore, I was minded to take one of these industries used by Mr. Holt for illustration, and work on it more intensively than he had found time to do, presumably, and ascertain for myself whether the democratic program was as radical as it looked.

This, by the way, is no brief for protection or any other political idea. My interest, as you are aware, is financial. I want to know in which direction security prices are headed, in advance of their going.

In the first place, we have every reason to believe that sugar—probably both raw and refined, but at least raw—will be put on the free list in accordance with the declared intention of Chairman Underwood, of the Ways and Means Committee last year. As the committee is to be constituted this year, it will be more thoroughly dominated by Underwood than heretofore. Moreover, the necessary two-thirds of the states have ratified the Constitutional Amendment making possible an income tax revenue which is avowedly to be raised as a substitute for the $50,000,000 revenue now derived from sugar imports. The temper of the administration, now that it is being tested out in office, leaves no room for doubt that measures thought to be for the ultimate good of the people will not be side-tracked simply because they are revolutionary, or destructive to established values.

Assuming free sugar then, our chief interest is in the cost of production here and abroad, for without a tariff wall production will ultimately survive only countries producing at the lower levels of cost. Transportation, at least by sea, offers little impediment. It costs less than 1/60 of the selling price of a pound of sugar to bring it to New York from Cuba, and less than 1/30 to bring it from the East Indies. The time element is unimportant. It is shipped in bulk, and often as ballast.

Figures of production cost that can be relied on are extremely difficult to obtain. The sugar manufacturers are not shouting from the house tops or spilling ink over their annual reports in an endeavor to educate the public to an unprejudiced view. Even when figures are cited, careful analysis is required to determine what are the constituents of the figures to make valid a comparison with other figures.

Just as an illustration of the necessity of caution, suppose you are sure you have absolutely reliable and standardized costs of a given refined cane and a beet sugar, you must not forget that the selling price differential of the two will run about 15/100c. a pound in favor of the cane. And your costs must be of the same season, or better still of, say, a ten-year average, for productivity, and consequently prices, vary greatly in this industry.

To come to my own conclusions, I have read volumes of Congressional hearings and reports, placing most weight on reluctant admissions by recalcitrant witnesses, and least on the comments of legislators that are to be franked home to western constituents, and on the manicured representations of legislative committees.

Now, laying aside the flowers and getting down to the corpse, the people of Louisiana and Texas cannot raise and refine cane sugar for less than 4½c. a pound. That is all the cane we have in this country.

The beet growers of California, Colorado, Utah and Idaho, where conditions are the best and whence perhaps 65 per cent of our beet sugar comes, cannot put the bulbs through factories and get the commercial product for less than 3½c. on the average. The beet growers of Michigan, Nebraska, Wisconsin, Illinois and the other less favored states, which grow the remaining 35 per cent., do well if they get out the sugar product at an average cost of 4-1/10c. a pound.

However, all this cane and beet which our tariff has been so careful to nurture for years at the expense of every consumer, is able to satisfy only one-quarter of the consumptive demand in Continental United States—Hawaii, with 485,000 tons, and Porto Rico, with 280,000 tons, give us almost all they produce and the Philippines, with 170,000 tons completes the American taxfree product.

Under the Payne-Aldrich act, Philippine sugar admitted duty free is 300,000 tons. Anything above that would be taxed the regular tariff, and if there is an excess, preference will be given to producers of 500 tons and less. This regulation has thus far prevented the erection of refineries there, or the conduct of operations on a large scale. At present one is being built by the Havemeyers. With plantations growing under favorable

conditions, and sugar mills primitively run without effective competition and all labor of the cheapest, the Philippines produce incredibly cheap if low grade sugar, said to average close to ½c. a pound.

Practically the only other sugar we get comes from Cuba, because the duty on foreign sugars (1.90c. a pound for refined and 1.685c. for raw) is given a 20 per cent preference, which reduces the duty to 1.348c. a pound for raw. Cuba then supplies us with the balance of our requirement, and is potentially capable of doubling its output if conditions require.

But probably conditions would not call for doubling under free sugar, since the Philippines could give us all we needed at a lower cost. Figuring in production, transportation, and insurance, etc., the Philippines can lay down refined sugars in New York at less than 2¼c. probably, even considering the present inferior quality of their product. Cuba, without the duty, would lay them down at 2.84c., Santo Domingo at 2½c., Java at 2.68c. and Continental beet sugars could reach us, provided they were permitted by their respective countries and the Brussels Conference, at somewhere between 2¼ and 2½c.

The Panama Canal will facilitate entrance at the most convenient ports of sugars from the Orient, and also will facilitate the transportation of West Indian sugars to the Pacific Coast. It will be seen from the above figures that there is practically no hope, under free sugar, of saving the Louisiana and Texas cane industry, or, for that matter, of saving a large part of the beet industry. There is trustworthy testimony that the most favored factories in California are able to produce under 3c., and it may be true in a few isolated cases east of the Rockies, but the production cost of the larger part of the beet factories is perilously high as compared with the cost of West Indian and Occidental cane.

Railway transportation, however, enters in as a factor east of the Rockies, where the railroad cost of obtaining imported cane from the seaboard may average ½c. a pound or more. But when all is said and done, we have every reason to believe that the American beet industry will suffer a permanent set-back and lose a position never to be regained, even after readjustment to new conditions of competition.

There has been good reason then for the decline in the price of American Beet Sugar common, which, about the time of Mr. Holt's article, was selling around 50, but is now below 30. The American Sugar Refining Company is not likely to be affected so seriously, for, although they have a substantial interest in the beet sugar industry, their major source of income is in the refining of cane. I have not looked very thoroughly into this aspect of the matter, but I believe that the bulk of our imported sugar is as likely to be refined by American capital in the future as in the past.

If Mr. Holt's conclusions regarding the effect of the tariff on the steel and other industries are as sound as they appear to be in sugar, our security markets do well to discount thus early and radically the severe commercial and financial readjustments that, whether for our ultimate good or not, are immediately before us.

LAWRENCE CHAMBERLAIN.

Absorption of Gold by India

An Important Influence on the World's Gold Reserves

ABOUT a year ago the above subject was discussed in this magazine and attention was called to the rapid increase in imports of gold into India in 1910 and 1911.

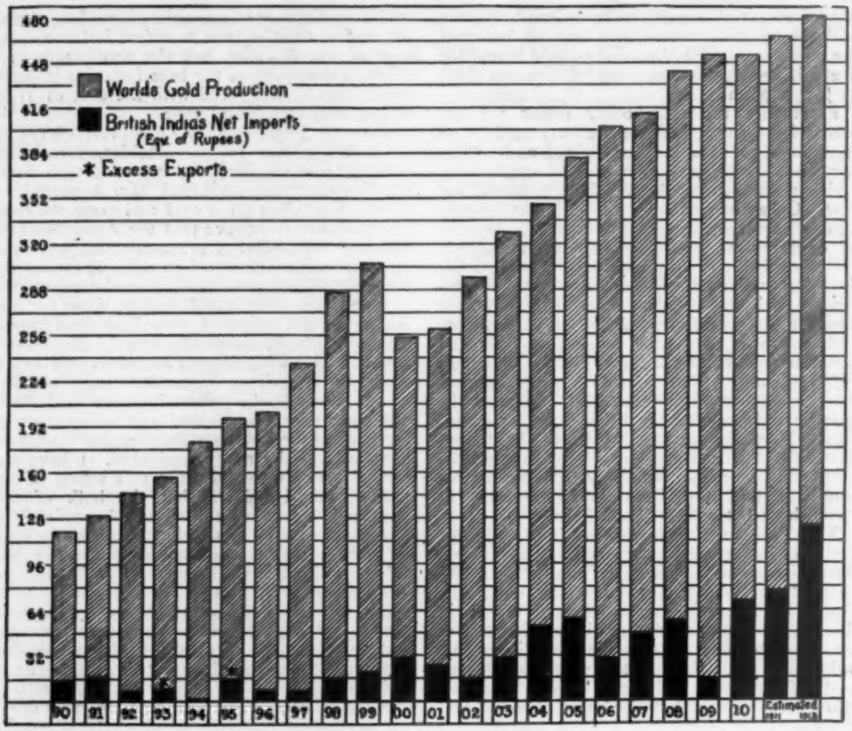
This tendency continued to be even more strongly observable in 1912. We present herewith a chart* showing the total of the world's gold production and net imports into British India year by year from 1890 to 1912, so arranged as to indicate at a glance the proportion of India's imports to the total.

In a word, the Indian absorption of gold is today about 25 per cent. of the worlds' production, against less than 10 per cent. ten years ago. The subject has attracted the attention of many students. Moreton Frewen, the English economist; Director Roberts, of the United States mint; and more recently Sir Felix Schuster and Sir Edward Holden, in addresses before their respective bank meetings, have emphasized the importance of this new development.

Sir Edward Holden speaks in terms of considerable alarm:

"Why have we and other countries not been able to obtain and retain more gold? The answer is because it has been taken by India;

*The figures upon which this chart is based were compiled from official statistics, not readily accessible (so far as India's gold movements are concerned) on this side of the Atlantic, by James S. H. Umsted, who, in *Financial America* and *The Forum*, was one of the first financial writers in this country to direct attention to India's gold absorptions and to their economic importance in recent years.



and if other countries continue in future to increase their trade without being able to increase their gold, then a crisis similar to, or even greater than, that in America in 1907 will assuredly take place, which will cause loans to be called in, credits to be contracted and great losses to ensue. Gold is now coming more into use in India, and there is little probability of reverting to the free coinage of silver, as some would wish. We are therefore face to face with a serious gold proposition."

A Liverpool house, Bigland Sons & Jeffreys, puts the whole matter in succinct form as follows:

"The 300,000,000 of people in India refuse to bank their savings, and, having recently enjoyed extremely paying prices for their produce, they have all the more to put by, which is being done persistently by hoarding gold.

"We fail, however, to see any remedy to stop the present situation in India. It is, so far as currency is concerned, almost as serious as if one-fifth of our gold supply was cut off. At present it is being literally buried, and the banking community have no means to stop the leakage. These same millions in American or European hands would circulate and fructify; hoarded by the natives of India they are absolutely dead, until a time of need or famine forces the holders to bring the gold into the market to purchase necessities.

"The menace of restricted finance threatens us at the opening of 1913, and must act as a preventive of speculative buying of both stocks and commodities."

A number of causes unite to produce this steady absorption of gold. The hoarding of money has always been a common practice in India. Banking facilities in many regions there are poor, and even where good banks are available the people often prefer to hoard cash.

Formerly this hoarding was in silver, as that was the standard money of India. But free silver coinage was discontinued in 1893 and the country was put on a gold basis. The inhabitants have become gradually more accustomed to the use of gold as money and now their hoarding takes place in the form of gold.

The tax of eight cents an ounce now imposed on silver imported into India of course tends to check such imports, and to lead to the settlement of trade balances in gold.

Again, the excess in the exports of

merchandise from India over the imports of merchandise has increased greatly in recent years. For the past two years this excess has been at the rate of about $300,000,000 a year. Consequently the trade balance to be settled results in large payments of cash to India, and, owing to the duty on silver, this cash is practically in the form of gold.

It is also true that gold is in far larger use as money than formerly. The Comptroller General of India states in a recent report that "the popularity of the sovereign as currency is greatly on the increase."

Briefly, gold is now the standard money of India and, as exports are exceeding imports far more than ever before, more gold has to be sent to that country to pay the balance, and a good deal of the gold is hoarded, so that it does not come back again into the world's stock of gold.

So far as the rest of the world, outside India, is concerned this condition is about equivalent to a reduction in the world's total gold production of 25 per cent. This is an important consideration and if continued will unquestionably have a noticeable effect on the gold available for bank reserves in commercial countries. In times of easy money, when there is plenty of gold available, the absorption by India is unimportant; but when a stringency arises, the loss of all this gold is felt.

Nevertheless it would be easy to overestimate the importance of the subject. In a general way, the world's credit is based on the world's stock of money; and annual production is only a small part of this total stock of money.

In 1911—the latest figures now conveniently available—the world's stock of money was approximately $12,500,000,000 for the principal countries, of which $6,700,000,000 was gold. The total Indian absorption of gold in 1912 was about $122,000,000—less than 2 per cent. of the world's stock of gold and less than 1 per cent. of the world's total stock of money.

This is enough to be felt, to be sure, but looks far less sensational than when it is stated as 25 per cent. of the annual world's production. Indian absorption, even if it continues at the present rate, will be felt only as one of those slow forces whose effects are felt over a considerable period of years.

Hence if Sir Edward Holden's gloomy predictions come true (and it is a noticeable fact of history that predicted panics usually fail to arrive on schedule time) many other causes besides India's large imports of gold will combine to produce that result. In fact it is not too much to say that the Indian absorption would be only a small element in the whole situation.

Distribution of Whiskers

THE following story in regard to ex-Secretary Leslie M. Shaw has been going the rounds:

"I was speaking to a filled hall in Seattle, in the campaign of 1896, and had almost finished," said Shaw, "when a long-whiskered man arose about the middle of the hall and held up his hand, saying he wanted to ask a question.

"'Go ahead,' I said.

"'How then, Mr. Speaker, do you explain the unequal distribution of wealth?' was his question.

"When I answered him, 'In the same way that I explain the unequal distribution of whiskers,' Bedlam broke loose.

"As soon as I could get quiet restored, I said: 'Now don't think I returned the answer I did to make fun of your whiskers. You will observe that I have no whiskers, as I dissipate them by shaving them off. Nature gives me abundance of whiskers, and if I conserved them as you do, I also would be abundantly supplied. Now, it is the same way with money. The man who conserves his money has more than his share, as with whiskers; while the man who dissipates his money is without his allotment.'"

Forecasting Business Conditions

By LAWRENCE CHAMBERLAIN

Author of "The Principles of Bond Investment" and "The Work of the Bond House"

Part I—The Purpose, the Materials, and the Method

CHAPTER VI—MECHANICAL AND GRAPHICAL METHODS

OBVIOUSLY there are as many methods of forecasting business conditions as there are men who forecast with reason, since no two persons have exactly the same mental processes. But assuming the common material that we find generally accepted, it is desirable for the sake of uniformity to describe the method of some particular man or organization which has standing in the Street. Personally I am under special obligation, for what knowledge of this subject I possess, to one of the three systems* referred to in the earlier chapters, and it is therefore both natural and proper that I describe that particular service.

A METHOD OF GRAPHIC PRESENTATION—THE MECHANICS OF STATISTICS.

A better idea may be gained of the immense labor involved in creating a science of financial statistics and of the possibilities of presenting clearly the intricate relations of these financial facts, if we understand the mechanics of such a system.

In the first place the labor of mathematical computation is reduced to a minimum by the use of machines that perform the arithmetical functions of addition, subtraction, multiplication and division. Of recent years the Germans have perfected trustworthy assistance of this kind. Then there are other machines which convert actual into percentile figures.

Considerations of policy make it inadvisable to describe mechanical short cuts and other devices in detail; but it may be said that thousands of dollars can well be invested in the equipment part of the plant of a statistical service. In fact, while we are speaking of plant, the capital invested may well run into six figures after a few years without wasting any money.

The system described here as an illustration is built up, physically, on the loose-leaf principle. Each set of facts is presented in graphic form on separate translucent sheets of quarto size. Being removable from the binder one sheet may be superimposed on another for comparison of the two graphs; or the sheets may be placed face to face when the correlations are inverse rather than direct. If desired they may be held before a light for greater clarity. The sheets are numbered for restoration to their proper place in the binder and they are grouped into the three large divisions that compose the three phases of the business cycle as classified in previous chapters. Other sheets without charts, but containing "actual" as distinguished from percentile figures, and still others with explanations of the economic theory and its application to charts, are included in the binder.

Besides the usefulness of this form of mechanical presentation for ease of comparison, it lends itself most readily to the replacement of old sheets with new, as more recent figures are available.

Although, as the name implies, this service relies on the graph or line to visualize and assimilate statistics, nevertheless it places on the sides of the sheets the figures themselves in "percentage of normal" form (which will be explained presently) and in many cases also in "actual" figures.

Since figures are more easily read across the page than up-and-down, the closely-set faint horizontal lines into which the sheet is divided represent months or quarter-years, as the time scale warrants, and against the time is set the average figure for the time, either in actual or percentage-of-normal form, or both. Progress down the page, therefore, represents passage of time. Prog-

*The system Mr. Chamberlain consults, and in part describes, is the Financial Graphic service. The other two prominent systems are the Brookmire service and the Babson service.

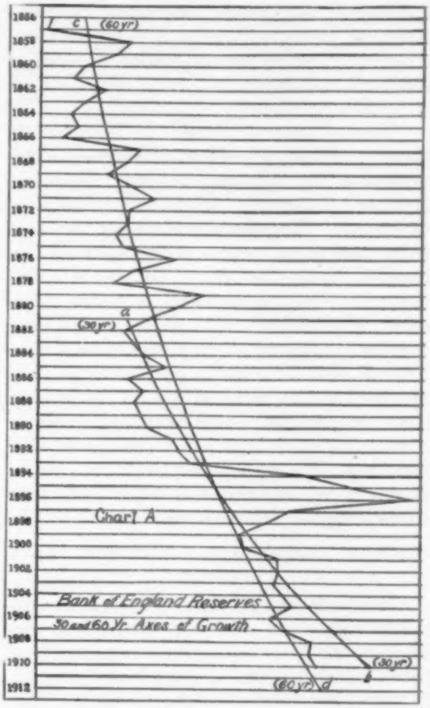
ress across the page, in consequence, represents variation from the normal or 100 per cent. line set in the middle of the page. Faint perpendicular lines as guides are set 1/5 per cent., 1 per cent., 10 per cent. away from the normal line, or any other per cent. demanded by the scale. In superimposition 100 per cent. is laid against 100 per cent., taking care that month and year horizontal lines are laid over the same month and year lines.

The result of this pictorial method is that line fluctuations are from left to right rather than up- and-down as ordinarily, and one has to accustom one's self to the innovation which, mechanically, is very superior to the usual method. That is to say, *right* represents increase and *left* decrease, rather than as in the customary way, with *up* representing increase and *down,* decrease.

There is one objection to the use of lines for representing variation, and the proprietors are fully aware of the force of it. "More than one set of forces is often at work tending to produce change in any given trend. This makes it desirable to get away from any habit of thinking of the graphics as mere lines, some of which tend to change ahead of others, and to get, instead, a clear conception of the economic forces which the lines represent, so as to be able to weigh their probable effects in combination with one another and with the special factors which make up the individual's own personal basis of judgment."

An attempt has been made in another service to represent force pictorially, by configuration of the area between the base or 100 per cent. of normal line and the fluctuating line, but in my opinion area variation is not the same true picture of force variation that line variation is.

Force at any one time, such as now, works instantaneously—in one sense not cumulatively. When a trolley car of a certain weight going at a certain speed (force) hits a wagon, it makes no difference in the effect whether the car had been going at that rate for a foot or a mile, for a minute or an hour. The moment we consider areas of force, in which one dimension is a time factor, we attempt to take into consideration past



force and give it as much weight as present force.

If business were delicately hung, like a pendulum, on some fixed suspension like an invariable quantity of gold money, then perhaps we might go to physics successfully, for the area principle of equilibrating action and reaction, but the complex business cycle has no center and no fixed revolution to make valid this geometric concept of area.

Sometimes it is desirable to picture on the same page two or more sets of figures that are closely related; for instance, gross earnings of railroads, net earnings, and maintenance. In that event a solid line, a hollow line (parallels) and a dotted line will graphically distinguish the sets of figures on the sides of the sheet, which they represent.

A METHOD OF REDUCING MISCELLANEOUS FACTS TO COMMON BASES.

Since our best method of anticipating future performance is by studying past performance, under similar circumstances, of the various materials at our

command, we have examined the mechanical helps to constant comparisons. That is looking at the matter from a physical standpoint. Let us now look at it from a mathematical standpoint.

Assume that we want to discover if there is any manifest relation between the output of pig iron and bountiful crops, or between bountiful crops and railway earnings. Obviously we cannot successfully compare tons with bushels or bushels with dollars. All these phenomena must be reduced to some common denominator of value before they can be compared one with another. The decimal system steps in and saves us. If everything is reduced to a percentage basis, everything is on common ground.

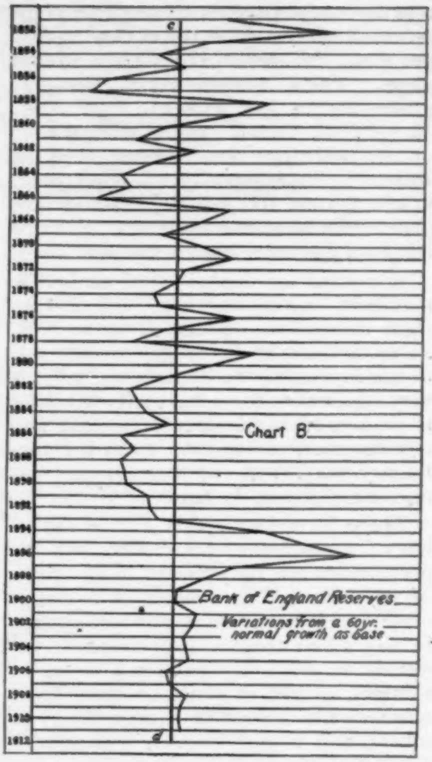
But 75 per cent., for instance, has meaning only as 75 per cent., or three-quarters of something. What shall that something, or 100 per cent. be?

NORMAL EXPERIENCE—THE TEN YEAR AVERAGE.

Obviously fluctuations of prices, quantities, ratios, or what-not should be related to some given price or quantity or ratio which might be considered normal. Normal experience is the average price (or as in the "axis of growth," below, the average *tendency* of price), quantity or ratio which has obtained over a given period of time. Since recent experience is more likely to prevail in the forthcoming years than experience which is half a century old, we should measure back the given period to serve as the base, from approximately the present time. The chief difficulty, then, is to ascertain how far back one should go in averaging for "normal experience."

Too short a period my produce as a base an ephemeral, extraordinary experience out of all keeping with what usually happens over the decades. If in commodity prices we took the average for the past six months, or the year, we should produce as a normal 100 per cent. line a high-record level without parallel for decades.

Too long a period back produces an average affected by conditions that may have passed away for all time. The stock of gold money in the United States, and (if a chart is kept of gold production) the supply of gold, have materially



altered in volume since the early nineties. If in a chart of gold we allowed our normal to be affected by the supply prior to the nineties all present figures would appear extravagant. It is an open question whether the period on which normal is based should be of the same length and even synchronous for the several sets of conditions, or whether each period should be determined by what seems statistically sound for that period. This service has chosen a uniform, recent period of 10 years: 1898-1907.

THE "AXIS OF GROWTH."

Some sets of figures, by their very nature, are not likely to increase or diminish indefinitely. The ratio of loans to deposits fluctuates with the season or with business conditions generally, but it does not grow with the growth of the country. For such material the base of 10 years' experience obtained by averaging is proper as it now stands.

When, however, there is marked

growth as in gold supply, or volume of reserves, the element of growth has to be removed from the figures so that the chart will show, not increase above or decrease below any given volume, but increase above or decrease below the amount of volume *we should expect at the given time based on experience.*

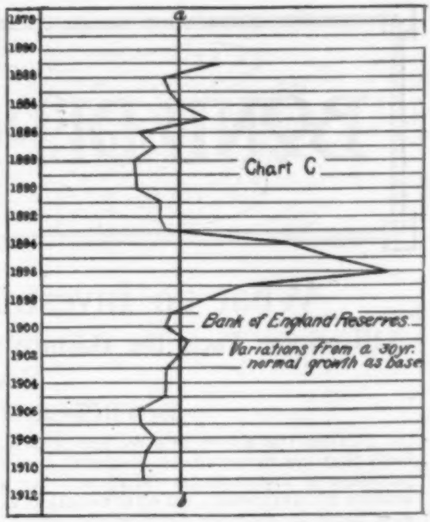
Then the straight, perpendicular base line on the translucent sheet will be a 100 per cent. or normal line not determined by a ten year average volume but by a curved line which most nearly coincides with the "actual" volume, as it shows change over the years.

To determine the normal, expected growth which must be eliminated, a longer period may well be chosen than in the case of the "10 year average" base. Thirty years has been chosen by this service, mainly from practical considerations. Many sets of figures are not available for a longer period back. Moreover 30 years is a well-balanced period in which constructive and destructive forces each have had fair scope.

For some material 60 years may prove a sounder base on which to predicate future normal experience. The accompanying charts illustrate, in the case of the Bank of England Reserves, an attempt to determine whether a 30 year or a 60 year curve will plot a fairer average for expectation. a-b-and c-d are 30 year and 60 year axes respectively and the broken line represents the changes from year to year in average reserves.

The plotted curve that most frequently crosses and recrosses the lines of actual experience is the truest base. In Chart A from 1882 to 1906 we should decide on a 30 year axis of growth, but the record from 1906 on inclines us to a belief in the 60 year axis.

In Chart B the 60 year curve of growth c-d becomes the straight perpendicular



base c-d of normal experience. Likewise in Chart C the 30 year curve of growth becomes the perpendicular base a-b of normal experience.

The principles involved in finding the base line or axis of normal experience are not new to geometry or engineering. But the application of them to the study of business conditions is recent, and should be given publicity together with every other effort to dispel the average man's prejudice against scholarship in business.

THE OUTLOOK.

The inclusion of the charts makes desirable a most brief statement of conditions. Gold, which is the basis of all business, is leaving us far more rapidly than business is receding. There has not been a time since 1907 when the situation verged on the acute, as at this moment.

(To be continued.)

*NOTE.—In the above article Mr. Chamberlain expresses his opinion in favor of the "Line method" of presenting statistics. In our next issue the Babson Statistical Organization, which uses the "Area method," will give reasons for preferring that system.—*ED.

BOND DEPARTMENT

What an Investor Ought to Know

XIII—Some Facts the Balance Sheet of an Industrial Company Reveals

By FREDERICK LOWNHAUPT

[Under the above title we are presenting a series of articles treating fundamental facts that are either never learned by many investors or apparently overlooked in the purchase of investments. Without a knowledge of the basic principles underlying the science of investment, rational selection is impossible. The aim of these articles is to give facts in readable form—facts which in themselves are technical, but which, coordinated, explained and placed in proper relation to each other, are both interesting and easily understood. The subject discussed in the March issue was "Some Facts Study of a Railroad Balance Sheet Reveals."]

THE balance sheet of an industrial corporation is often a much more vital consideration than the income account. Of course, there is always a large degree of importance attached to this latter exhibit, but it does not show enough. It shows just how the company is going along in its operations, how much business it is doing currently, and what the results from this business are, how well the management of the concern is keeping expenses under control and how efficiently the business is being managed, but it does not show some other very important facts that it behooves the investor to know.

For a long time past it was the practice of many of the industrial corporations to make out their balance sheets at the most favorable time of the year; that is to say, they would make their annual reports at such a time as would show the very best position with respect to the cash resources of the company and the strongest working capital.

Take, for instance, the case of one corporation that for some time made its report in the early autumn. This was done, apparently, because at that time it had its treasury full of cash, having had a large percentage of its bills receivable liquidated and many of its accounts payable settled, and could consequently show a very handsome position with respect to working capital, the most of which would be cash, a most desirable situation.

The average man who read that report had no idea that within two or three weeks after the publication of the report the situation had changed entirely, and that the company had almost completely dispersed the cash and had outstanding, beside, a considerable amount of bills payable. There can be no serious criticism of the company because it issued its report at that time, for it might be said that one time was as good as another, but the fact that the showing was of so different a nature at that particular time than a little later would easily have led the uncritical investor to wrong conclusions.

It is satisfactory to note that the industrial corporations are more and more coming to a point where they are issuing their reports as of December 31. When this is carried out to its fullest development it will enable a comparative study of reports of a group of corporations of one industry, but, of course, will not materially aid in comparison of reports of various and diversified industries. Everyone knows there are seasonal periods in many industries which work vital

changes in the income accounts and balance sheets of such concerns over comparatively short periods.

There are times when a good deal of raw material is being bought, which fact, of course, would give one complexion to the balance sheet, and there is another time when a good deal of this raw material has been worked up into finished product which has been contracted for. This latter situation would not always change the situation with respect to the balance sheet materially, for the same material that appeared in the balance sheet as inventory when it was in its raw state would again appear in the sheet under inventory, but would at this stage of the operation be much nearer to the money to be received therefor than at the previous time.

Then there is still another time with some corporations when bills receivable and cash are coming in for the completed product and the product is disappearing from the shops, all of which puts still a different aspect on the balance sheet, for it makes the inventory go down and the bills receivable and cash go up, which is the better condition.

The amount of information an investor can glean from a balance sheet obviously depends upon the fulness with which that document is presented. There are too many corporations that are giving skeleton balance sheets from which the investor can get nothing of the vital points about which he is concerned. In an industrial company the balance is the unerringly true reflection of conditions in a larger and more important sense than in the railroad business. There are certain factors in the railroad business which are entirely dependent upon different considerations than hold in the industrial world.

Let us explain this in this way: In the transportation business there are certain principles that affect operation which form the basis of action and relieve various officials of exercising that degree of personal judgment which holds in other business. This is not to say that these officials could carry on their work without good judgment, but we all know that the railroad business is more completely every year being reduced to something of an exact science. In the industrial world this does not hold to anywhere near that extent. In that field the personal element enters to a very large degree, so much so that in a number of instances the heads of the concerns are insured for the benefit of the corporation.

There should be a fine balance between the various items and groups of items in the industrial balance sheet.

Take for instance the question of the amount of working capital and the gross business done. There is no definite rule whereby the exact relationship can be established. The proportions vary greatly, depending upon the character of the business. The packing business, for instance, can be conducted very successfully on a working capital of an amount equal to one-fifth the gross business done. Some of the larger packing concerns do a gross business of approximately $250,000,000 on a working capital of one-fifth that amount. This proportion in other lines, say, for instance, the harvesting machinery concerns, would be well nigh impossible.

The secret is that the packing business turns its working capital over so fast that it can use the same dollar practically five times in one year. That is to say, the dollar put into its products comes back in the form of cash in a little more than two months. It would be manifestly impossible for a concern to maintain such a rate of turnover where the money goes into raw material and comes out finished product many weeks afterward and lies in inventory many weeks more. An illustration of this is the automobile business. Excepting where the orders are all in advance there is always a large amount of money tied up in raw material and in finished product in the shape of machines in show windows and stock rooms which does not come back for a comparatively long time.

A study of the balance sheets of these various concerns does not disclose anything with respect to a principle that would be deduced, but it does show the diversity of proportions that exist in this respect. Of course, it is not always possible to make such a study, inasmuch as many of the industrial corporations do not report their gross business and there is no way of getting the figure.

The investor who studies the relation

between gross sales and working capital in the way suggested, learns that the corporation which must keep a large working capital in proportion to the sales is the one which would be watched more carefully than the one which has a highly liquid business, and therefore may get along on a different scale.

The writer has in mind one corporation which is doing a magnificent business and apparently had a sufficient working capital, but when many people were least suspecting it this concern was badly in need of more capital because too great a proportion of its so called quick assets were represented by bills and accounts receivable which simply could not be realized on to the extent necessary to get additional money to meet the expanding business.

So this is a point which the investor does well to consider when studying the industrial balance sheet, namely, the size of the bills receivable item. He may well study the proportions between this item and the working capital and then as a second consideration take into account whether the bills received are of the long-time variety or not. There are some classes of business that operate on long-term credit to their customers. The agricultural implement makers are among these. Some of the bills they receive run for a considerable time, say three or four years, and then again quite a few of these bills are renewed when due.

An illuminating study may be made of this general matter of the amount of bills receivable and their proportion to the gross business done and the proportion to the working capital. Here again no definite rules can be laid down. There are always peculiar conditions existing in an industrial concern that bear upon the policy of the corporation in respect to taking bills and accounts receivable.

Bond Market Topics

Will Stock Declines Drive Investors to Bonds?

Bond men are watching for signs that investors as a class have turned from the flood of preferred stocks that has inundated the market over the past four years and have once more set themselves to the straight and narrow course of buying only bonds, whether they be of the most conservative character or not. The basis of hope for the bond men is the action of the stock market over the past four months, the last two months particularly, wherein many of the newer preferred stocks have had heart-breaking declines. Examples as might be cited where stocks have fallen anywhere from ten to forty points and have put their holders in anything but a pleasant frame of mind, these are the basis of bond men's predictions that the reign of preferred stocks is temporarily over. It may be over, but this depends somewhat on whether such stocks have been absorbed into investment channels or whether large amounts are still held in speculative accounts. If they have been pretty well taken up by investors strictly for income, it may be a while before their attitude toward bonds is apparent. It may become strongly apparent after the stocks have been at low prices for a long time. The question is as to how many of these investors have already become so thoroughly frightened that they have experienced a complete change of mind and will henceforth for some time seek only the safer investments, or at least those which cannot, under any ordinary circumstances, decline ten to forty points in almost as many days.

Blue Sky Legislation Over the Country.

Kansas led the procession and made so much noise about it that the so-called Blue Sky legislation enacted in that state for the benefit and protection of legitimate dealers in investment securities, has made itself felt throughout the length and breadth of the land. Some thirty states have patterned legislation after the bill that went through the Kansas legislature and have worked out many variations of the idea embodied in that statute. For those unfamiliar with the import of this bill, it may be said that it was enacted to prevent floating of fraudulent securities in that state. Some very rigid provisions were included in the bill and so far as Kansas is concerned security dealers over the country see no reason for a radical modification. But many of them have come to the conclusion that the type of statute that fits Kansas does not fit all the states and accordingly they are calling attention of lawmakers to the necessity of going carefully in enacting a bill like this for fear it may affect the legitimate interests of bond dealers of integrity. It is only natural that, with so many groups of men of so many points of view, there would be modifications of any general set of regulations, and some bills not very carefully drawn. It is this character of legislation that the sound and responsible investment houses fear, for once such statutes

are put upon the books it would not be an easy matter to erase them, at least for some months. The investment dealers of the country are therefore concerned that the blue sky legislation offered all over the country should be built in a conservative manner. It will be recalled that in a previous issue of this magazine mention was made of the outline legislation that was prepared by the Investment Bankers' Association as a guide for the various states. They want legislation on this topic to be strict and thoroughly protective, but they are solicitous that it should be so drawn that it does not unwittingly defeat its own ends by harming legitimate dealers.

Will the Preferred Stock Movement Live Much Longer?

The evolution of the preferred stock from its earliest days, when it was preferred very largely as to dividends only, without and special provisions as to preference in other respects, is no less interesting than the question whether the preferred stock movement will live much longer. As preferred stocks are issued today, they resemble about as much as anything the income bonds and debenture bonds of former days. Of course, the newer stock generally bears a somewhat higher rate of dividend than most of these bonds, since it is a stock in name as well as fact. The question now being discussed is whether the second rate bonds will not come into favor once again and that before a great while. It has been a question often with corporations when financing during the past three or four years, whether they would issue some second rate bond or use the preferred stock which had become so popular. The market favored the latter type of security and it was sent out. And the corporations were very glad of it. This situation relieved them of definite interest charges and gave them a loophole through which they could crawl in the future if the worst came to worst in their income account, under poor business conditions. A movement toward second-rate bonds, of course, would not include such securities as income bonds, as these are generally issued under special circumstances only. It may include more debenture bonds and some more of the general type.

The Question of Undigested Securities.

One of the live questions of the hour has to do with the amount of undigested securities hanging over the market. Over the past three or four years there have been billions of securities issued and a large part of them have been easily syndicated among dealers. But as the security dealers are aware, there is a something further to be done after the securities are distributed to the syndicate and set down opposite the names of investment dealers as having been sold. The campaign of distribution is not so quickly over. This fact is recalled by many now and they ask how much the question of undigested securities has to do with the present state of the bond market.

There are periods every few years when the bond market falls into a condition of quietude and apparent lifelessness that is mistaken for a cessation of demand. So many dealers and critics of investment conditions take for granted that if there are not immense totals of securities going out every month under the heading of new securities, the bond market is suffering from some radical trouble. As a matter of fact there are large amounts of securities still in the hands of the syndicates and that may not be distributed for some time. A period of rest in the issuance of new securities is always a good thing for the market. To be sure there has been no decided let-up in the issuance of new securities over the past few months, but it will be found on close analysis that a large part of these securities have been put out for refunding purposes. When we see signs of a reviving interest in bonds, indicating a large and strong market, it may safely be inferred that the period of rest and recuperation for digestion of the great mass of bonds has passed.

Are There Any Signs of a New Bond Market?

That the bond men watch every straw to see which way the wind is blowing is evident from the fact that some of them have interpreted the trading in bonds on the New York Stock Exchange as indicating that something better can be expected of the bond market in the immediate future. Trading on the board in old established and high grade investment issues has increased somewhat over the past two months. These bond men have taken this as a sign of the renewed interest that they believe is being manifested in bonds and have looked for strong evidences of it in the outside dealings. Of course, every bond house is always doing business; in fact some of them say right now that they are enjoying a very good streak of buying. But in its broadest aspect the bond market is not up to this condition. There is no doubt much in their diagnosis of the situation, but they have apparently forgotten one aspect. And that is that there have been many delayed issues of securities on account of the condition of the money markets. If so many security issues had been brought out as have been contemplated over the past three or four months there might have been less buying on the Exchange and the funds would have gone into the newer securities. The question that arises out of this fact is whether, when the new securities do come on the market, there may not be a selling of the listed securities to take up the newer ones. Whatever may be the result a little while later, good buying in the open market now has the effect of stimulating sentiment, and bond men have a very good argument to present to investors as to the timeliness of getting into bonds.

The Bond Buyer's Guide

IN the following table are arranged in order of yield the principal active issues of bonds listed on the New York Stock Exchange, the income being figured at the latest available selling price for lots of 20 bonds or more. They are divided into groups, according to the grade and character of the bonds.

This table will appear monthly, and will prove invaluable to bond buyers, as well as to brokers and to all others who are called upon to select or recommend investments. It is presented for purposes of comparison only, and mention of a bond issue is not to be construed as a recommendation. Our object is merely to show the relative yield of different bonds of each of the several classes.

(1) High Grade mortgage bonds, many of which are legal investments for New York State Savings Banks.

Description.	Due.		Interest Period.	Price Mar. 14.	Yield.
Chic., Rock Is. & Pac., ref. g. 4s	Apr.,	1934	A.—O.	85	5.18
U. P., Ore. Short Line, guar. ref. 4s	D.,	1929	J.—D.	89½	4.98
Wabash, 1st g. 5s	My.,	1939	M.—N.	103	4.80
B. & O., P. L. E. & W. Va. Sys., ref. 4s	N.,	1941	M.—N.	88¾	4.72
Balt. & Ohio, prior 3½s	Jl.,	1925	J.—J.	90	4.59
Balt. & Ohio, Southw. Div., 1st g. 3½s	Jl.,	1925	J.—J.	90	4.59
Wisconsin Cen., 50-yr. 1st gen. 4s	Jl.,	1949	J.—J.	90	4.57
Ches. & Ohio, gen. g. 4½s	Mch.,	1992	M.—S.	98⅞	4.55
Oregon-Wash., 1st & ref. 4s	Ja.,	1961	J.—J.	90⅜	4.49
Northern Pac., gen. lien g. 3s	Ja.,	2047	Qu.—F.	66⅛	4.46
Ches. & Ohio, 1st cons. g. 5s	My.,	1939	M.—N.	108½	4.45
Chic., Burl. & Q., Ill. Div., 3½s	Jl.,	1949	J.—J.	84	4.39
Mil., Spar. & N'west., 1st gu. 4s	Mch.,	1947	M.—S.	93⅜	4.38
Southern Pac. R. R., 1st ref. 4s	Ja.,	1955	J.—J.	93¼	4.35
Union Pacific, 1st & ref. 4s	Je.,	2008	M.—S.	92¼	4.34
Chic., Burl. & Q., gen. 4s	Mch.,	1958	M.—S.	93½	4.33
Illinois Central, 1st ref. 4s	N.,	1955	M.—N.	94	4.31
Atlantic Coast Line, 1st g. 4s	Je.,	1952	M.—S.	94½	4.29
Balt. & Ohio, gold 4s	Jl.,	1948	A.—O.	94⅞	4.28
Gt. Northern, 1st & ref. 4¼s, Ser. A	Jl.,	1961	J.—J.	100	4.25
Louisville & Nash., uni. g. 4s	Jl.,	1940	J.—J.	96	4.25
N. Y. Central & H. R., g. 3½s	Jl.,	1997	J.—J.	84½	4.17
Atch., Top. & S. Fe, gen. g. 4s	Jl.,	1995	A.—O.	96	4.17
Reading Co., gen. g. 4s	Ja.,	1997	J.—J.	96	4.17
Chic., Burl. & Q., Ill. Div., 4s	Jl.,	1949	J.—J.	97¼	4.15
Chic. & N'west., gen. 4s	N.,	1987	M.—N.	97	4.13
Del. & Hud., 1st & ref. 4s	My.,	1943	M.—N.	97¾	4.13
Union Pac., 1st R. R. & land grant g. 4s	Jl.,	1947	J.—J.	97¾	4.12
Chic., Mil. & St. P., gen. g. 4s, Ser. A	My.,	1989	J.—J.	97½	4.11
Northern Pac., prior lien g. 4s	Ja.,	1997	Qu.—J.	97⅜	4.11

(2) Collateral trust bonds selling at prices relative to the value of the underlying collateral.

Chic., Rock Is. & Pac. R. R. 4s	N.,	2002	M.—N.	62½	6.19
Missouri Pac., 1st coll. g. 5s	Ag.,	1920	F.—A.	97⅜	5.43

Southern, Mob. & Ohio, coll. tr. g. 4s......	S.,	1938	M.—S.	85⅜	5.04
Gt. Nor., C., B. & Q., coll. tr. 4s............	Jl.,	1921	J.—J.	94⅛	4.90
Erie, Penn., coll. tr. g. 4s.................	F.,	1951	F.—A.	89⅛	4.61
N. Y. C. & H. R., Lake Shore, coll. g. 3½s..	F.,	1998	F.—A.	77⅝	4.54
Atl. Coast L., L. & N., coll. g. 4s............	O.,	1952	M.—N.	90½	4.52
Southern Pac., g. 4s (Cen. Pac. coll.)......	Ag.,	1949	J.—D.	92½	4.42

(3) Convertible bonds having no mortgage lien whose quotations are governed largely by the price changes of the stock into which they are convertible.

Erie, 50-yr. conv. 4s, Ser. B................	Apl.,	1953	A.—O.	70½	5.89
Ches. & Ohio, conv. 4½s..................	F.,	1930	F.—A.	90½	5.36
Erie, 50-yr. conv. 4s, Ser. A................	Apl.,	1953	A.—O.	79¼	5.25
Del. & Hud., 10-yr. conv. deb. 4s...........	Je.,	1916	J.—D.	97	5.09
Southern Pac., 20-yr. conv. 4s..............	Je.,	1929	M.—S.	89¼	4.98
N. Y., N. H. & Hart., conv. deb. 6s.........	Ja.,	1948	J.—J.	120	4.81
Union Pacific, 20-yr. conv. 4s..............	Jl.,	1927	J.—J.	93	4.69
Atch., Top. S. Fe, 10-yr. conv. g. 5s........	Je.,	1917	J.—D.	101¼	4.65
Chic., Mil. & St. Paul, conv. 4½s...........	Je.,	1932	J.—D.	102⅛	4.34
Atch., Top. & S. Fe, conv. 4s (issue of 1910)	Je.,	1960	J.—D.	99¾	4.01
Atch., Top. & S. Fe, conv. g. 4s............	Je.,	1955	J.—D.	102½	3.88
Norf. & West. Ry., 10-25-yr. conv. 4s......	Je.,	1932	J.—D.	105½	3.60

(4) Debenture bonds most all of which are selling on high level because of the good general credit of the respective companies.

Lake Shore, deb. g. 4s....................	S.,	1928	M.—S.	90¾	4.88
Lake Shore, 25-yr. g. 4s..................	My.,	1931	M.—N.	90⅞	4.76

(5) Semi-investment bonds, many of which are general mortgages, often classified as "business man's" investments. Income yield is reasonably definite index of relative worth.

St. L. & S. F. R. R., gen. 15-20-yr. 5s........	My.,	1927	M.—N.	79½	7.02
Seaboard Air Line, adj. 5s................	O.,	1959	F.—A.	71	6.72
Wabash, 1st ref. & ext. g. 4s..............	Jl.,	1956	J.—J.	58¾	6.58
Denver & Rio Grande, 1st & ref. 5s........	Ag.,	1955	F.—A.	81½	6.12
Chic., Rock Is. & Pac., 20-yr. deb. 5s.......	Jl.,	1932	J.—J.	87⅜	6.08
Missouri Pac., 1st & ref. conv. 5s..........	S.,	1959	M.—S.	86	5.85
St. L. & S. F., K. C., Ft. S. & M. Ry., ref. g. 4s..	O.,	1936	A.—O.	77	5.79
St. Louis S'west, cons. g. 4s...............	Je.,	1932	J.—D.	79½	5.78
Mo., Kansas & Texas, gen. sink fund 4½s...	Ja.,	1936	J.—J.	85¼	5.65
St. L. & S. F. R. R., ref. g. 4s.............	Jl.,	1951	J.—J.	75¼	5.57
Chic. Gt. Western, 1st 4s..................	S.,	1959	M.—S.	76	5.42
Southern, dev. & gen. 4s, Ser. A............	Apl.,	1956	A.—O.	77¼	5.36
Missouri Pac., 1st cons. g. 6s..............	N.,	1920	M.—N.	104¼	5.31
West. Maryland, 1st g. 4s..................	O.,	1952	A.—O.	79¼	5.25
Cleve., Cin., Chic. & St. L., 20-yr. deb. 4½s.	Ja.,	1931	J.—J.	91½	5.23
Kansas City Sou., ref. & imp. 5s...........	Apl.,	1950	J.—J.	98	5.12
Norf. & Sou., 1st & ref. A 5s..............	F.,	1961	F.—A.	98¾	5.07
Denver & Rio Grande, 1st cons. g. 4s.......	Ja.,	1936	J.—J.	86¾	4.97
Colorado & Sou., ref. & ext. 4½s..........	My.,	1935	M.—N.	94	4.95
Southern, 1st cons. g. 5s..................	Jl.,	1994	J.—J.	104¾	4.76
St. L., Ir. M. & S., gen. con. g. 5s..........	Apl.,	1931	A.—O.	103	4.75
N. Y., W'ches. & B., 1st Ser. I, 4½s.......	Jl.,	1946	J.—J.	96	4.74
Erie, 1st con. g. 4s prior..................	Ja.,	1996	J.—J.	85¼	4.71

PUBLIC UTILITIES

Public Service Commissions

Safeguards for Investors, Servants of Bankers and Helpers of the Utility Companies

By OLIVER CAROLL

MISSOURI'S attempt to create a new public utility commission is only in line with the movement throughout the whole country. All of the states have not yet created such a body, but there is little doubt that within a few years there will be a nation-wide adoption of the idea, and practically all of the states will maintain commissions. The pronounced success which has attended the labors of such bodies in New York, New England, and the middle western states is the augury that the movement will spread.

At the beginning there was no small measure of opposition to such commissions. There was an ill-grounded fear that the commissions would exercise their power in such arbitrary fashion that they would prove a hindrance to the proper and rational development of corporate enterprise. The bugaboo of commission interference after this fashion has almost disappeared, at least in a large part of the territory where they now operate. There has been interference, but of such a character that it has amounted to the exercise of a protective function alike for investors who have been asked to purchase the securities of the public service corporations, the bankers who have underwritten the securities, and for the companies themselves.

* * *

A STRONG, able, intelligent and honest public service commission is a veritable boon to the investor. And the great majority of the strongest opponents of the idea originally have now reversed their opinions, endorsing these commissions generally. Perhaps no institution affecting such large interests was looked upon in the beginning with any greater degree of skepticism than these commissions; and certainly no institution has won any more absolute favor than this one in so short a time. Whenever an investment house has a public service issue to offer, an issue which has come under the supervision of the commission in the state of New York, for instance, the fact that it has been approved by that commission is plainly advertised. "Approved by the Public Service Commission" is the legend put on many bond circulars and is one that carries weight with the investment public.

Investors generally have been educated to the idea that the approval of this commission means that certain cardinal qualifications exist in the security which commends it to their consideration. This does not mean that all of the securities approved by this public service commission are practically guaranteed as high grade investments. Not at all. But it does mean that the stamp of integrity has been placed upon these securities, and they are fit and valuable and may be generally accepted from the banker on his word. As for instance there are bonds issued that may be purely for construction purposes. Anyone familiar with investments knows that this type of security is not classed as a conservative investment since a certain element of speculation exists. Yet construction bonds issued under the supervision of a

commission like that of New York state may be a very different proposition from those issued with regard to the judgment only of the promoters of the scheme.

It is right here that the investor gets his assistance from these commissions. He is relieved from the anxiety of the questions affecting the integrity of the security. Not that the security may be fraudulent at all, but that the questions of whether the promoters or company are acting wisely in the matter of amount of securities issued, in the time of their flotation, in the purposes for which the funds are intended and in various other similar questions. It gives the investor a double assurance, for presumably he is purchasing the bonds from a reliable dealer, who for his own satisfaction has thoroughly gone over the various points enumerated, but who possibly has made some error of judgment. It is not likely that the body of experts sitting on the commission as well as the bankers would make the same mistakes. The investor therefore has not only the skilled judgment of the house from which he buys, but the sanction of other judges just as wise as his bankers.

* * *

THE wholesomeness of the restrictive function thus exercised by these commissions cannot be fully appreciated except by a clear understanding of how it affects the investment public to know that some disinterested body has passed upon the financing in which they are asked to engage. As a matter of fact, some investors show a preference for just this kind of security, feeling better satisfied than in accepting bonds issued without the supervisory functions having been exercised in this manner.

But if the action of a good commission is a double assurance and safeguard for the investor, who cannot generally study the intricacies of the securities offered him, it acts much the same for even the banker who sells the securities. Not that he may not be able to form an excellent judgment, but that he has, as it were, gratis, the advice of another body of experts than his own. Many times the banker does not need any advice, but there are occasions when the commissions have suggestions and recommendations which in the main are sound and reasonable and for the better position of the banker in accepting the securities from the company.

Generally speaking, the function of the commission, so far as the investment banker is concerned, is in the nature as a consulting body of experts, for generally the company wishing to put out securities goes to its bankers first and consults with them and practically has made up its mind as to what it wishes to do after that conference, but before it has gone to the commission for approval. Now, if some better idea is advanced by the commission it is manifest how it serves in such an instance both the company and banker.

But if the commission is a benefit to the public at large who invest in securities issued under its approval and also a help oftentimes to the banker, it is quite as much of an assistant to the company itself.

* * *

WE have noted how these commissions frequently act as advisers fully as much as supervisors. In this dual capacity they are often the company's best friend.

Probably where they serve in this capacity most noticeably is in the matter of protection for the company against competition. There are a great many situations where it is now recognized that competition is detrimental. Dual telephone systems, as an example, in a town are almost universally recognized as an anachronism, and have been under the ban in all enlightened communities. The fact that two public utilities concerns of the same character cannot well thrive alongside of each other in one single community, has almost crystallized into a principle. There have been occasions of recent years where attempts with doubtful motives have been made to establish rival companies. It is against such contingencies that the public service commission stands.

Wherever the organizers of a prospective utility company must go to the commission for approval and scrutiny of its desire and plans to establish a competing service corporation they are likely to hesitate lest the motives and ground for their application be of the soundest. The expediency permitting establishment

of a competing company and the need or absence of need for such company along with many other considerations get the close examination of the commissions and it may be accepted as practically the last word when the decision is made. At least this is the situation in some states.

Not only does the commission protect the company from invasion by competition when that is really not needed, but it also stands between the company and the public in a beneficial way to both. There may be some instances where a public service corporation is apparently misused by the commission on certain points, but, generally speaking, justice is done.

The way in which the commissions stand between the companies and the public is in the matter of rates and service. The public service corporations that know the people have a tribunal to which they can go for rectification of injustices of rates or derelictions of service seek to satisfy the demands of reason and justice wherever possible. And the corporations may expect to be protected from exactions and annoyances in so far as they give proper service and rates.

In a word, the existence of the commission and its functions in this regard often serve as a buffer between the demands of the people and radical legislative action. It serves as a court in which both sides of the case may be heard without resort to the extremes of heated and perhaps biased action in the halls of legislation against the corporation.

Public Utility Notes

Ohio Utilities and Legislators.—The following quotation is interesting for the light it throws on the difficulties that sometimes beset franchise corporations. It has become the popular thing in Ohio when Public Service corporations are under fire to introduce a bill in the legislature to revoke their franchises. This has already been done in several instances and the latest is a bill to revoke the franchise of the Northern Ohio Traction & Light Co. It is charged the company has failed to live up to its franchise requirements. The introduction of the bill arises out of the refusal of the company to reduce its fare along part of its line. The case was carried into the courts which held that the franchise of the company was perpetual and the commissioners had no power to revoke it.

Municipal Ownership in Canada.—A campaign is now being waged to bring the tramways of Halifax, N. S., under municipal ownership. Bills to this effect are to come before the legislature as well as to grant additional privileges. The franchises of the company expire in 1914.

Municipal Ownership in Kansas.—Before the Kansas legislature there is pending a measure affecting every public service corporation in the state including steam railroads. If enacted it would empower any city in the state on ninety days' notice to purchase any public utility at a price of 8% above the valuation placed upon such utility for taxation purposes. It is stated the bill is one to require taxation of public service corporations at their full value exclusive of franchise values. It provides that on March 1 each year all corporations owning or operating public utilities in any city of the first, second or third class in the state shall list with the assessor of the county in which the utility is located all property owned by the utility together with the physical valuation, less franchise value. This statement is to be the basis on which the property is to be taxed or taken over. Penalties of fines and jail are provided for failure to meet the requirements.

Missouri Legislation on Utilities.—In the bill providing for a Missouri Public Utilities Commission, now pending in the legislature of that state and drawn by the governor, the governor states he aims at five principal objects. These are to prevent the watering of corporation stocks and bonds, to regulate rates and service on a basis of actual investment in property, to enforce publicity on the part of all public utility corporations, fix responsibilities of corporations, directors and officers, to leave corporations nothing to fight for in primaries and elections and to drive the public utility lobby from the legislature. The new bill is drawn practically on the lines of the bill introduced during Governor Hadey's incumbency.

Utility Bond Prices.—A recent compila-

tion of quotations, says the *Wall Street Journal*, showed an average decline of more than three points on twenty-five high grade steam railroad bonds within a year. In three years the decline on these bonds has averaged more than three points. The present average price is now lower than it has been since 1905. Turning to a list of eighteen public utility bonds a different course is noted. The public utility issues taken are well known, have a wide market and while in the last three years no great advance is noted, their average price is somwhat higher than it was then. Among the compilation there is given such bonds as Detroit Edison 1st 5s, Laclede Gas Light ref. and extension 5s, Pacific Telephone and Telegraph, Rochester Railway & Light Con. 5s, Scranton Electric 1st and ref. 5s, Southern Power 1st 5s.

Cleveland Railway Financing.—By retirement of $4,505,000 of Cleveland Electric 1st consolidated 5% bonds the $5,495,000 Cleveland Railway 1st mortgage 5% bonds became an absolute first lien on all the property of the company. The City of Cleveland recently had a report made on the physical valuation of this property and it was reported that the property was worth more than the outstanding funded debt plus the stock outstanding. No more bonds will be issued on the property as it is planned to do all future financing through the sale of stock, the money to pay off the bonds just retired having been raised in that way.

Southern Power Project Abandoned for a Time.—The Alabama Traction Light & Power Co., the holding corporation of the Alabama Interstate Power Co., has abandoned all further effort to reverse President Taft's veto on the bill giving the company authority to develop power at Lock 18 on the Coosa River near Birmingham. Congress passed a bill granting this right, but the President vetoed it on the ground that it did not provide for any payment of revenue to the government for the use of the water, which is a navigable stream, nor did it give the government any right to regulate rates. The Alabama Co. planned to spend $10,000,000 on this development. The company states it will go ahead with the work if the proper permission is granted.

Ohio Utilities Merged.—Three properties in northwestern Ohio, the Defiance Gas & Electric Co., the Suburban Light & Power Co. and the Maumee Valley Electric Co. have been taken over by the United Public Utilities Co., which has been incorporated under the laws of Delaware with a capitalization of $1,000,000 stock authorized and issued and $5,000,000 first lien 6% bonds.

The California Railroad Commission has granted authority to the Northern Electric Railway Co. to purchase the property of the Vallejo & Northern Railway Co. for $1,000,000 and $2,000,000 stock of the Northern Electric Co. Because of this the latter company has increased its stock to $10,000,000 preferred and $15,000,000 common. Last fall the Northern Electric was authorized to issue $9,000,000 in 5% bonds. Part of these will pay for the new purchase.

United Light & Railways Position.—The United Light & Railways has entered upon a programme of extensive improvements and betterments for the underlying companies in the way of several enlarged and new generating units, the acquisition of thirty new cars, erection of new car barns and the increase of mileage, all to cost in the neighborhood of $1,250,000. The company on January 1 had something like $2,000,000 cash working capital and had provided for all its financing for 1913 and 1914.

Pacific Gas & Electric New Bonds.—The Pacific Gas & Electric Co. has made application to the railroad commission of California for authority to issue the $5,000,000 ten-year 6% convertible debenture bonds which it will offer to stockholders soon after the special meeting on April 8. It is not expected there will be any delay in the authorization by the railroad commission. When the commission gave its approval for the last issue of 1st and refunding bonds it suggested the company raise some of its construction money from other sources than the sale of these bonds. It is to meet this situation that the debenture bonds are to be issued. In 1912 the company expended approximately $8,000,000 in construction and in 1913 is expected to expend equally as much more. As but $12,000,000 of this amount can be provided from proceeds of first and refunding bonds there will be at least $4,000,000 to be met from the proceeds of the debentures. The company expects to have sufficient horsepower available by the close of 1913 to stop purchasing current from other companies. An extensive programme of expansion of gas and electric transmission and distributing systems will be made during the year.

Cincinnati Suburban Bell Telephone Co. Increased Capitalization. — Stockholders have approved an increase of $4,000,000 in the stock of the company raising the capitalization of the company from $8,000,000 to $12,000,000. The additional stock is not to be issued now but is to be held in reserve for contingencies.

INVESTMENT DEPARTMENT

INVESTMENT: The placing of capital in a more or less permanent way, mainly for the income to be derived therefrom

A Shrewd Investor's Analysis of Copper Bonds

By JOHN OSKISON

LAST Summer, when copper metal, after a long period of overproduction and low prices, began to rise, and the optimists were beginning to crowd the pessimists to the wall, one of New York's shrewdest investors undertook to work out a method of profiting from the turn which he believed had come.

First, he found out what companies would profit most by an increase in the price of their output; then, among these, he picked six which had issued, in the course of their financing, convertible bonds. He reasoned that such bonds must follow fairly closely the changes in the prices of their stock; the stock would rise with the increase of profits due to higher metal prices, and by putting his money into the bonds, rather than in the stocks, he reduced his risk to a minimum.

When he had got this far, the investor took his list of six bonds to a firm of mining experts and asked for a complete report. What follows is the account of a transaction covering less than three months. In that time, the investor put something like $188,000 into the bonds and took out a profit of about $10,000.

That profit was made by following the trail marked out by the expert who undertook the investigation. It is important, therefore, to know how the analysis of the expert was conducted. In studying his report, one finds that four factors were considered—the safety of the investment, income, speculative possibilities, and marketability. These were taken up and analyzed in turn.

* * *

ALL of the companies, the expert found, guaranteed their bonds by their full assets and profits-producing capacity. He found that of the six companies selected the protection varied according to this table: to secure each $1,000 bond

Utah Copper	had	$45,000	actual value
Miami	"	16,000	" "
Ray	"	12,000	" "
Chino	"	14,600	" "
Inspiration	"	3,900	" "
Braden	"	1,840	" "

This was the protection of the par value of the bonds. But the bonds are convertible into stock at a certain figure, and in every case the market price of the bonds was above par. At that time the investor had to pay from $1,047 to $1,650 for each of the 140 bonds he proposed to buy. It was important, therefore, to discover whether the market price of the stock, which determined the price of the bonds, was justified. If the answer was in the negative the investor stood to lose the difference between the market value of the bonds and their par value. What he might lose was indicated in this tabulation:

Possible loss on bonds of

Utah	$280.00
Miami	650.00
Ray	180.00
Chino	400.00
Inspiration	47.50
Braden (6s)	470.00

IN arriving at the actual value behind the securities of the companies, the expert prepared three tables, which he attached to the report as appendices. They dealt with

1. Estimated costs of production.
2. Financial status.
3. Values.

Company by company, the items making up the costs of production—mining, stripping, development, haul to mill, concentration, smelting, conversion, freight, refining, marketing, and current construction—were set down side by side. The ton-cost of treating ores and the pound-cost of copper metal produced were shown. Ton-cost varied from $1.725, in the case of Utah, to $3.06, in the case of Miami, while pound-cost of the metal rose from seven and seventy-two hundredths cents to ten and seventenths cents.

The expert assumed that copper metal would have an average market value, over a considerable period, of 14 cents a pound. The probable profit on each pound of copper produced was figured, therefore, as follows:

Utah	4.35	cents
Miami	5.5	"
Ray	3.5	"
Chino	5.	"
Inspiration	3.3	"
Braden	5.	"

Multiplying profit per pound by pounds produced yearly gave the total net annual income of each company. Next, tonnage reserves were given; these figures were valuable as indicating the life of the mine as a profitable producer. Considering income, ore reserves, and the life of the mines, the actual value behind the stocks and bonds issued by the companies was easily determined. For example: With copper selling for 14 cents a pound, Utah should have a total yearly income of $7,620,000; its tonnage reserves were 301,500,000, and it had 40 years of life ahead of it. Its issued securities were 1,575,000 shares of stock of a par value of $10, and an issue of $2,500,000 of 6 per cent. bonds—a total face value of $18,250,000. But its ten-dollar shares of stock were then selling for over $62, and its $1,000 bonds were selling for $1,280. The market value of all its securities, therefore, was above $102,000,000.

This market value, the expert figured, was conservative, always supposing that copper is worth 14 cents a pound. The more accurate value would be $113,500,000, making the stock worth per share over $69, instead of the market price of not quite $63.

In the case of Utah, the bonds may be converted into stock at 50—that is, 20 shares of stock may be secured for each $1,000 bond turned in to the company. The expert pointed out that the price of the bond at that time was $1,280, and that the price of 20 shares of stock was $1,257.

Considered as income producers, the bonds were tabulated in this way:

	Yield on par %	Net return on purely bond basis %	Current income. %
Utah	6	3.0	4.68
Miami	6	—1.0	3.64
Ray	6	3.5	5.08
Chino	6	1.0	4.28
Inspiration	6	5.4	5.72
Braden	6 & 7	—1.0	4.14 to 4.67

These figures meant that if the purchaser of the bonds bought them at the market price and held them, purely as an investment, until they were paid off, his return would be represented under the heading, "Net return on purely bond basis." If he bought them and converted them into stock, his return would be that which appears under the heading of "Current income." It was evident, from the expert's figures, that only one of the bonds was selling at a price to justify its purchase merely as an income producer.

* * *

WHAT, then, about the speculative possibilities of the various bonds? On this point the expert said:

"They are about the same as those of the stocks. Any further considerable rise in price must depend upon greater profits than those estimated, either through a rise in the price of copper or a reduction in the cost of production. If smaller profits than those estimated are made, the decline in bond prices would probably be limited by par on account of the protection of actual value behind them. . . .

"For the purpose of indicating the speculative possibilities of the bonds, I show herewith the result of two cents per pound additional profit—either through a rise in price above 14 cents, or a lowering of costs of production."

	Present market value of bond.	Estimated conversion value with 2c. per lb. additional profit.	Profit per $1,000 invested at 2c. per lb. addl.
Utah	$1,280.00	$2,000.00	$560.00
Miami	1,650.00	2,420.00	470.00
Ray	1,180.00	2,150.00	820.00
Chino	1,400.00	2,280.00	630.00
Inspiration	1,047.00	1,590.00	520.00
Braden (6%s)	1,450.00	1,400.00	— 50.00
Braden (7%s)	1,500.00	1,400.00	—100.00

Protected as they were, the bonds of at least five of the six companies were readily marketable. They were bought and sold on the New York Stock Exchange nearly every day. The investor, therefore, need not have feared that he would find himself with unsalable securities on his hands in case he had to dispose of them.

* * *

BETWEEN the day the report was handed to the investor and the day he sold his bonds, a period of less than three months, the price of copper metal rose almost four cents above the fourteen-cent average, nearly doubling the rise suggested as probable by the experts. Naturally, neither the bonds nor the stocks made any such dizzying gains. But there was substantial gain. For example:

Ray bonds, which were selling for $1,180 each when the report was made, brought $1,250 each the day this investor sold them. Ray stock, however, which the report gave a value of $43 a share with copper metal selling at 16 cents a pound, increased in price only from $20.50 a share to $22 a share.

Chino bonds rose from $1,400 each to $1,520 each. Its stock rose from $32.75 a share to $38 a share. Inspiration, the newest and most uncertain of the six companies selected, did not offer as good a profit as the others. Its bonds rose from $1,047 each to $1,075 each, while its stock went down 37 cents a share.

The wisdom of this investor in sticking to the bonds of the companies was demonstrated. His purchases were twenty bonds each of Utah, Miami, Ray, Chino and Inspiration, and twenty each of the 6s and the 7s of Braden. As I have said, his profit was close to ten thousand dollars—more than five per cent. on his investment within three months.

* * *

THERE is a moral in this investor's story—make your investigations *before* you make your investment. It suggests, too, the kind of investigation which will help to put money in the wise investor's pocket, and it offers one other hint, for it will be remembered that it was undertaken when the market was stagnant, when there was little buying, and when prices were low.

Investing for Profit

A Review of General Principles and Practical Methods

By G. C. SELDEN

Author of "Psychology of the Stock Market," etc.

[It is believed that this article on the bank statement, the first half of which appeared last month, contains the most careful statement yet made of the theoretical basis and the practical application of the Deposit-Loan Graphic, which is used by many investors.]

IX—When to Buy and When to Sell, as Shown by the New York Bank Statement (Concluded)

WE are now in a position to understand why the relation between deposits and loans of New York banks afford such a valuable index to the movements of the stock market.

The first step, in order to study the interdependence between the bank statement and the stock market, is to spread out the statistics for a series of years in such a way that they can be readily examined and analyzed. This is done by plotting a diagram showing the excess of deposits over loans (or deficit under loans, as the case may be) and the contemporaneous movements of the stock market.

How far back shall this diagram be carried? Very little would be gained by studying the bank statements during the disturbed epoch of the Civil War, the reconstruction period and the resumption of specie payments. The conditions of that time were so different from the present that we could not expect to draw any useful deductions.

During the 80's and 90's banking conditions were, in general, similar to those of today, yet there are some important differences. For example, during the last ten years the per cent. of loans to deposits of all national banks in the United States has varied between 101 and 111; but between 1890 and 1896 this per cent. swung from 115 to 130. The lowest point of the 90's was higher than the highest point of the last ten years.

It is desirable to understand the reason for the great decrease in the proportion of loans to deposits shown by this comparison.

First, we must remember that the loanable funds of a bank include not only its deposits, but also its other available resources. Roughly speaking, the bank may loan out not only the money deposited with it by business men, but also its capital, surplus, undivided profits, and its issue of currency, or circulation, as it is commonly called.

Bearing this point in mind, we find that although the per cent. of loans to deposits was very much higher in the 80's and the 90's than it has been since 1900, the per cent. of loans to *all loanable funds* was pretty much the same.

This simply means that the banks are now doing a much larger proportion of their business on other people's money than was the case previous to 1897. In the six years of tremendous prosperity from 1897 to 1902, the people piled their money into the banks so fast that deposits leaped from $1,640,000,000 on December 17, 1896, to $3,112,000,000 on April 30, 1902. This tremendous inrush of new deposits took place without any corresponding increase in the rest of the bank's loanable funds.

The question may be raised whether this plan of banking on the other fellow's money does not leave the banks in a vulnerable position. A bank's deposits are subject to withdrawal on demand, while its capital and surplus are not. If three-quarters of the bank's loans are based on deposits, is the bank in as strong a position as when only half its loans are based on deposits?

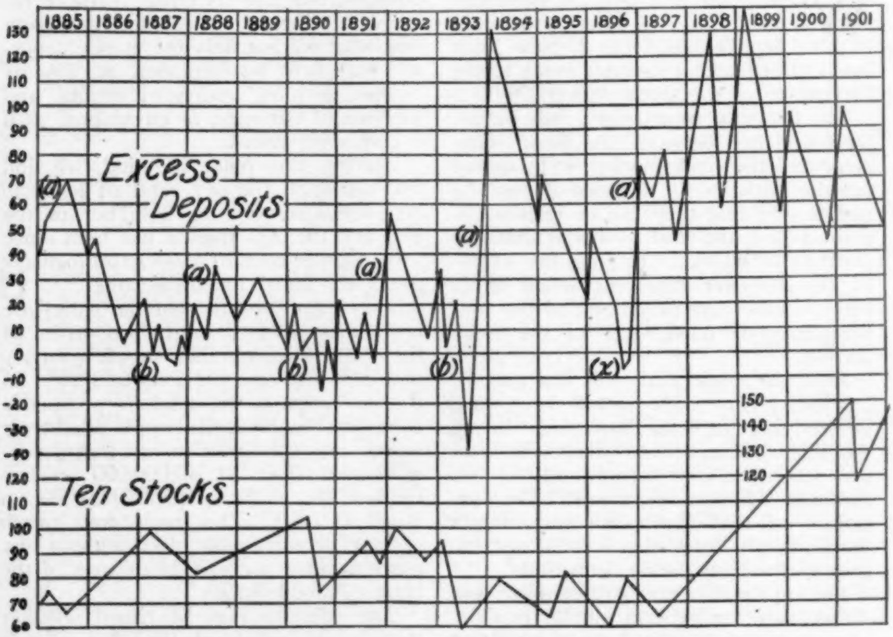
The answer to this question is: "Yes, provided the bank's loans are of such a character as to be called in within a reasonable time." The strength of the bank does not hinge upon the amount of its loans or the extent to which those loans

are based on other people's deposits, but upon the character of the loans and upon the cash reserves which are kept on hand to back up the deposits.

The per cent. of cash reserves is fixed by law and there has been no change in this respect during recent years, so far as national banks are concerned. The question of the character of a bank's loans depends on the management, but in view of the close supervision exercised by the United States Government over the national banks it is rare that any trouble arises from this source.

For the reasons explained above, I loans. On the lower part of the diagram is shown the average price of ten leading stocks for the same period.*

It will be seen at once that a rapid piling up of excess deposits, as shown at the points marked (a) on the diagram, was followed in every case by an advance of greater or less proportions in stocks. Also, the loss of excess deposits, shown at the points marked (b), was followed by a decline in stocks. We might say that excess deposits are the fuel which builds up the blaze of speculation, and when the fuel is exhausted the blaze dies down.



confine my study of these factors to the last quarter-century, and I place much less weight upon the statistics of the 80's and the 90's than upon those from 1900 to date.

The first diagram begins with the low prices of 1885, after the small business depression of 1884, and continues to 1901. The zero line represents equality of loans and deposits for the New York clearing house banks. The scale above the zero line represents excess of deposits over loans in millions of dollars, and below the line a deficit of deposits under

During the years 1893 to 1896 the action of this law was partially deranged by doubts as to the maintenance of the gold standard for money. Gold is, of course, the basis of credit. A rapid ac-

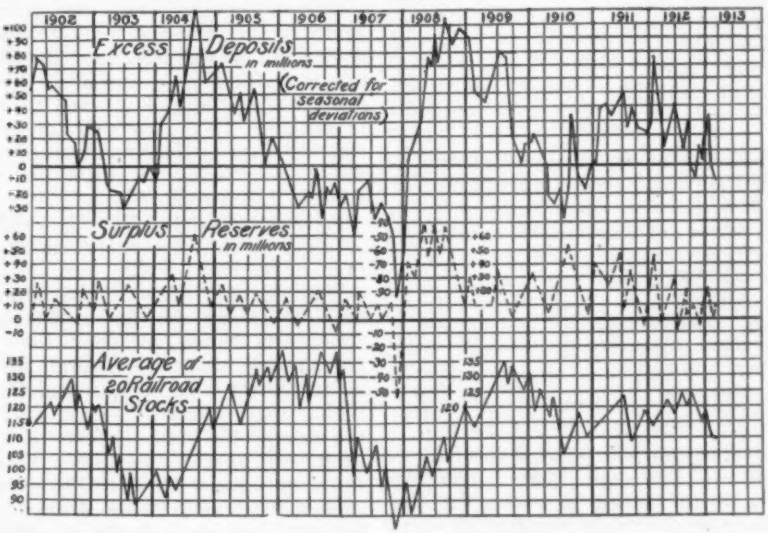
*The diagram was prepared from the figures given in Professor Norton's "Statistical Studies in the New York Money Market," and in Henry Hall's "How Money is Made in Security Investments." The diagram is not plotted from week to week, but fairly represents the general course of the figures. The term "surplus deposits" is sometimes used for excess deposits, by analogy from surplus cash reserves, but is misleading because there is no fixed or necessary relations between deposits and loans, hence there can be no true surplus. It also increases the danger of confusion between surplus reserves and surplus deposits.

cumulation of excess deposits as shown at the points (a) is always accompanied by a piling up of cash reserves in the banks. In 1894 we had an accumulation of cash reserves and bank deposits such as would ordinarily have resulted in a big rise in the market, but the actual advance in prices was small because of the possibility that the value of these big gold reserves might be cut in two if our currency was forced on a silver basis.

In 1896 these fears became still more acute and resulted in the hoarding of gold, so that deposits were pulled down below the zero line at the point marked (x), and the stock market lost the moderate advance which it had made in 1895. With the gold standard once established, deposits began to accumulate again and the biggest bull market in the history of the country followed.

The second diagram, covering the years 1902 to 1912, has been much more carefully compiled. The line of excess deposits was plotted from week to week throughout, and the average of twenty leading railroad stocks below shows all important fluctuations. Surplus cash reserves are shown in addition to excess deposits.

The surplus reserves do not afford as good an index to the situation as the excess deposits, because they cannot remain for any length of time below the zero line. The banks are required by law to maintain the amount of surplus reserves represented by the zero line on the diagram. Reserves rise with excess deposits, and in a general way also fall with them until the zero line is reached, but from that point they cease to be a reliable guide.



The deposit-loan line on this diagram has been corrected to eliminate merely seasonal deviations. Every autumn the New York banks are called to furnish large sums of money for "crop-moving," as it is called; that is, to pay the farmer for his crops as they come to market. There is also a small outflow of money in March, in preparation for spring planting. During the rest of the year this money is gradually coming back to New York.

A change in excess deposits due merely to the season of the year is of no value as indicating the broad movements of the stock market; hence it is desirable, though perhaps not absolutely necessary, to allow for these deviations.

The method of doing it was simple. First a monthly average for the entire period of 132 months was obtained, then the average for each one of the 12 months separately. A comparison of the two showed the per cent. to be added or subtracted in each month in order to get

rid of the seasonal changes. I am aware that expert mathematicians would find fault with this method in certain minor particulars, but it is near enough for our purpose.*

The following approximate changes were found to be necessary in order to get the non-seasonal line:

DEPOSITS.

January, add	3.9%
February, subtract	0.8%
March, add	0.2%
April	No change
May, subtract	1.0%
June, subtract	1.9%
July, subtract	2.6%
August, subtract	3.8%
September, subtract	1.7%
October, add	0.8%
November, add	2.5%
December, add	5.2%

LOANS.

January, add	3.8%
February, add	0.2%
March, add	0.4%
April, add	0.2%
May, subtract	0.1%
June, subtract	0.6%
July, subtract	1.5%
August, subtract	2.3%
September, subtract	1.7%
October, subtract	0.5%
November, add	0.4%
December, add	2.0%

This diagram will repay a careful examination. For four years preceding 1902 a liberal margin of excess deposits had been continuously maintained. The figure of $80,000,000 touched in January, 1902, was, however, somewhat lower than the high points of all the four preceding years. The highest had been nearly $140,000,000 in 1899. This showed some falling off in the quantity of idle money available for use in the stock market, but there was still enough for the purpose.

From January to September, 1902, excess deposits fell steadily, reaching the zero point in the latter month. During this period the stock market gradually advanced. The high point was 129.36 for the average of 20 rails, which compared with a previous high point of 117.86 reached May 1, 1901. When the excess deposits finally shriveled to the zero point, in September, 1902, call money jumped to 25 per cent. and a sharp break in the stock market resulted.

This gave the bull market a shock from which it was not able to recover. A small excess of deposits was restored in January, 1903, but was soon lost again, and it was not until January, 1904, that a normal excess was restored. During this time the trend of the stock market continued downward to a low point of 90 at the end of August, and practically the same low figure was touched again in March, 1904.

Excess deposits were now piling up again rapidly and the market soon felt the effect. Prices advanced almost continuously for a year, and after some reactions again forged upward to 138.36 in January, 1906. By this time excess deposits were again down to zero and in the closing week of 1905 call loans touched 125 per cent.

A severe decline followed, which was accentuated by the enormous destruction of capital in the San Francisco earthquake and fire. In the latter half of 1906 almost this entire decline was recovered. Some recovery from such an emphatic break was natural, but there is no doubt that prices were forced higher than otherwise would have been the case by the bullish efforts of a small group of multi-millionaires. This was the time chosen by Mr. Harriman for raising the Union Pacific dividend to 10 per cent., and every device was apparently exhausted to force prices to the highest possible notch.

All this fight was made against the money market, as would be expected when we see that there was a constant deficit of deposits under loans throughout the year. Call money touched 13 per cent. in August, 40 per cent. in September, 9 per cent. in October, 27 per cent. in November and 36 per cent. in December.

The effort of these gentlemen to prove their supremacy over economic law could not be called successful. How much they succeeded in lightening their load of securities will never be known, and indeed it is sometimes claimed that

*This diagram is kept up to date and reproduced each month in The Magazine of Wall Street.

they found themselves more heavily committed after their campaign was over than they had been before. At any rate they were large and continuous sellers in 1907, and at least one of them suffered reverses of fortune at this time from which he was never able to recover.

Prices declined all the more rapidly as the result of having been artificially sustained. Even the "Silent Panic" of March, 1907, was not enough to clear the atmosphere, and the disastrous crash of October was the final outcome.

With the restoration of surplus reserves and excess deposits early in 1908, another bull market began which lasted, with the usual reactions, throughout 1909. In November of that year excess deposits were once more used up, and promptly with the new year a prolonged bear market started.

In August, 1910, the excess of deposits was restored, as a result of heavy liquidation in the stock market and imports of gold from abroad. From that time, upward progress was slow and irregular and made in the face of many difficulties, both political and economic, at home and abroad, but in October, 1912, a new high point was established for stock prices since 1910. At almost the same time the excess deposits, which had been wavering uncertainly for two years, finally disappeared and a drop in prices followed.

The question is likely to be asked, "Why not simply depend on call money rates as an index instead of going to all this trouble?" The answer is that the call money rate is itself, to a larger extent than excess deposits, a function of the stock market, which we are attempting to forecast. In 1901, for example, call money touched 10 per cent. or higher in five months out of the twelve, yet this resulted in nothing more than a big reaction in the market and the general bull movement continued to much higher prices in 1902.

The high call money rate was due to excited speculation and not to any real weakness in financial conditions.

In 1909, on the other hand, the highest rate for call money was 7 per cent., and during most of the year the money market was very easy. In fact the highest prices of that year were made in a 3 per cent. call money market. Speculation was only moderately extended; but fundamental financial conditions were unsatisfactory and a bear market ensued.

The rate for commercial paper affords a better gauge of conditions and is well worth studying, but it is not as closely representative of the stock market situation as the excess deposits of the New York banks.

Of course it is understood that the relation of deposits and loans is far from being the only important factor influencing the market. Sometimes it may be comparatively unimportant, for the time being, as in the fall of 1906, or in 1894-5, both of which cases have been mentioned above; or in August, 1911, when a combination of a foreign war scare and anti-trust suits begun by the United States Government caused a big reaction in prices.

But the fund of excess deposits available for stock market purposes is the best index to the broad movements of the market. A weakness here renders the market easily vulnerable to other bearish considerations and unresponsive to bullish developments; while strength here enables prices to resist attack and to move upward easily when favorable news announcements are made.

I don't know of any one simple point in connection with the stock and money markets that is so well worth careful watching as this. It will not satisfy day-to-day speculators. In fact it is doubtful if anything would ever satisfy that class of traders. But the investor for profit will find that this index to banking conditions gives him a sound, common-sense grasp of the fundamental facts in the financial situation.

In a word, then, the time to buy is when excess deposits begin to pile up rapidly, and the time to sell is when these excess deposits are exhausted. The purchaser may perhaps have to wait some time for an advance, as in 1893 to 1896, but if he has bought only sound dividend-paying securities he can stand the delay with considerable fortitude, as he will be receiving a satisfactory interest on his money all the time.

Views on the Outlook

A Suggestive Conversation

WE were sitting around in a small circle in our banker's office. All of us had money to invest, and were hoping that bargain time would soon arrive.

The question arose, "In what shape is it best to keep your finances meanwhile," and the substance of the conversation was as follows:

A—I keep my money in short term notes, as I can thus secure a liberal return, convert them into cash when necessary, or use them as margin if not advisable to sell. It strikes me this plan has many advantages.

B—Also some drawbacks. Suppose you pay par for your notes and when you want to use the funds the price is 95 or 90. You don't feel like taking a loss, so you hold the notes and thereby lose a chance to make a much larger profit in the stocks you might buy.

A—But, remember, I can put the notes up as collateral margin.

B—You can, most of the time—but there was a period during the 1907 panic when you couldn't get a broker to buy except for cash. This was when things were at their worst—the very time when you should have had the spot cash or certified check to buy with. Failure to provide this might cost you five, ten, or twenty points, which would be much more than the loss of interest sustained by letting money lie in a trust company at two and a-half or three per cent., instead of investing it in short term notes, which pay six per cent.

C—There's another side to this note question, too. Suppose you buy a lemon like Kansas City Railway & Light, or the note of some company which is thrown into receivership or comes near it; your loss is likely to offset the interest gained, even though you have only a small part of your "barrel" invested in one bad apple. Having all cash is a guarantee against such things, and when bargain time does come you reap the full benefit.

B—You're right. It's well to remember that the real good opportunities in the market are created by the urgent necessities of other people. You don't care what brings this about. It's a state of mind, and often, you might say, a condition of pocket-book. To get the full benefit you must be able to act at the psychological moment.

A—Well, we seem to be agreed on one point—that bargain time is approaching. Why and when do you expect it, B?

B—Some time this year, perhaps very soon. We are going into a period of readjustment in our business methods and organizations, and it will require considerable time to work out our problems. This is apt to lead to uncertainty and somewhere along the line something is likely to slip; someone will get scared, and then we shall have our opportunity.

C—I don't agree with you at all. The market has discounted all these unfavorable factors. It is thoroughly liquidated. Nobody is carrying stocks on margin, so how are you going to shake people out?

A—Sometimes those who pay for stocks get scared, too. But underneath the market is the great big buying which insiders will do as soon as they can see through the fog, and then will come the public with their savings bank money that has been accumulating for years back.

B—But you don't know when these philanthropic insiders and the public will step in and turn the market.

C—It will be very soon, as sound investment stocks are already down to a level where they net the investor over six per cent. What can happen to put them down much further?

B—Oh! lots of things. Just think what it means to have $300,000,000 in cash hidden away from circulation in foreign countries. This is the basis for perhaps $1,200,000,000 worth of credit. No wonder money rates are up in Germany, and our country is shipping gold to relieve the strain over there. Our

bank reserves also are very low. In a word, the world's capital is tied up, as it was six years ago.

A—What about the tariff?

B—No one, even Morgan, can tell how this will affect the market. Take Steel common, and figure any way you like, it's bound to be affected more or less, but its present price would undoubtedly hold if the dividend were not reduced below four per cent. There are two sides to the tariff question, I'll admit.

C—It seems to me the money situation is more important than the tariff.

B—For the present it is, anyway. The month of April will bring its own problems.

Earnings and Dividends

They Do Not *Always* Make Prices

IT is a popular idea that earnings make dividends and dividends make prices in the long run. But this does not always hold good.

Try to use the average dividend rate paid by twenty leading railroad stocks as a guide to prospective low prices in the present decline and you will find yourself in a quandary.

In 1903 these twenty stocks paid dividends averaging 4.02%, and the low price in the panic of that year was about 89 (Dow-Jones averages). In 1907 the average dividend rate paid was raised about one-third, to 5.46%, yet prices averaged 82.

During the six intervening years, in spite of numerous changes, the average rate of dividend has increased but slightly—only one-third of one per cent. in fact—affording little ground for the hope that this factor alone will form a strong sustaining element.

Dividend Rates Paid.

	1903	1907	1913
Atch.	4	6	6
B. & O.	4	6	6
B. R. T.	..	..	5
Can. Pac.	5½	7	10
Northwest	7	7	7
St. Paul	7	7	5
Del. & Hud.	7	9	9
Erie	..	..	..
Ill. Cen.	6	7	7
L. & N.	5	6	7
Mo. Pac.	5	5	..
N. Y. Cen.	5	6	5
Nor. & West.	3	5	6
No. Pac.	7	7	7
Penna.	6	7	6
Reading	..	4	8
So. Pac.	..	5¼	6
So. Ry.	..	..	..
Twin City	5	5	6
Un. Pac.	4	10	10
	80½	109¼	116
Average rate	4.02%	5.46%	5.8%
Low average price	89	82	

It would seem, therefore, that while earnings and dividends may be the foundation for many a bull campaign, we need not look in this direction for a supporting point. Reading, as a four per cent. dividend payer in 1906, sold at 164 when George Kessler tried to corner it, then broke to 112 when Mr. Frick threw over his line. It rallied to 139 the next year, afterward declining in the panic of 1907 to 70½—nearly a hundred-point fluctuation without change in dividend.

The Average Investor and Gold Depreciation

How Much Does He Know and How Much Does He Care About It?

LEARNED economic talk and writing on this much mooted subject of gold depreciation is like Tennyson's book—it goes on forever. The airing of this phase of our modern economic structure gives vent to numerous opinions on the subject from all grades of economists, from the real ones who are men of large learning and accredited reputation in their field to the other extreme type men who style themselves "practical economists," so-called teachers who attempt to reduce a world-wide question to the narrow confines of their own limited experience.

Some two years ago a prominent and wealthy business man of comparatively limited experience and with practically no knowledge of fundamental economics issued forth with a last word on this great question of gold depreciation—how and why it was coming about and what were to be the effects thereof. He emphasized the necessity of dealing with the subject from a "practical" man's point of view.

Every once in a while some alarmists on this question come out with direful predictions as to what is to happen over the next twenty, thirty, or forty years, as the result of the depreciation of gold. They go back over the past ten or fifteen years, figure up the amount of gold that has been produced, find that it has been practically a steadily advancing amount, and then lay down the premise that all economic changes can be traced directly or indirectly to the depreciating power of the dollar as represented by its value in gold.

Special stress is laid upon the direful results that are to come about for investors in long-term securities, and the advice is given that this is no time to invest in long time bonds because the purchasing power of the dollar is becoming steadily less and less, all through the steady influx of gold into the world's channels of commerce. In other words, the world's money is being steadily diluted by the stream of gold that is pouring out of the mines.

There are some eminent thinkers along economic lines that take the position that the steady increase in the gold supply of the world is constantly lessening the purchasing power of the dollar; that is to say, there is so much gold being brought forth that its value is steadily becoming less. They tell investors in bonds that the holder of a security that gets fifty dollars on his bond annually now will get the same amount forty years from now, and will be able to buy at that time no more with the fifty dollars than he can get now with, say, forty-five or forty-three dollars—the difference representing the depreciated value of the fifty dollars over the forty years.

All this may be so. Who knows? Where is there anyone living today that can forecast the economic position of the world forty years from now or even fifteen or twenty years from today? Who shall say which of the half-dozen or more prominent factors that enter into the question of the relative value of a gold dollar will be most prominent such a long time from the present? There may have occurred some wonderful economic changes in all this time and the pendulum, which has swung so far as to have caused the average investor to get less for his dollar today than he got twelve years ago, may be back again where it was fifteen years ago and the investor may be buying three and one-half or four per cent. bonds at high prices.

The enthusiasm with which our economists play upon this theory (for theory it is purely) that gold depreciation will go right on unchangeably is hardly appreciated by the average investor. In the first place the advocates of this theory have some eminent rebuttal to meet in the men who see other factors working in the economic world, factors which to their minds are far more likely to be causing the changing purchasing value of the dollar than the amount of gold that is being mined. The disagreement of doctors makes it impossible for any one set of doctors to have the absolute faith of the body of investors.

These latter controversialists, many of whom are eminent for the soundness of their economic views, generally see such factors as the tremendous increase in demand for credit and the expanding fields for the use of money as strongly affecting the purchasing power of the dollar. In other words, the enlargement of the field for the use of capital is creating a degree of competition that is causing the price of capital to rise, the extended demand for credit is raising the price at which money can be borrowed to do business, and this in turn is raising the price of things to the individual.

Through all this maze of economic reasoning the average investor cannot see. He gropes about among these elaborate theories but cannot find a solid footing. The average investor is no economist; he understands little economic theory and what is more he cares less about it. The average investor is a practical business man who has money coming in more or less steadily which, if not needed in his immediate business, goes into investments regarded as reasonably conservative. He may be told to buy stocks by the economist who says that equities are the things to buy, but he does not see it so. Stocks to the average investor mean uncertainties; bonds mean a steady income; and the arrangements of the investor are suited to the size of the income.

The average investor who has felt the pinch of increasing costs, represented by the decreas-

ing value of the dollar, has demanded more dollars of income for the money he invests and he has gotten it. The average investor today is shouting for higher income than he received ten years ago and he is getting it in the high yield public service corporation security and the six and seven per cent. preferred stock. When he received proportionately less than he receives in income now, his dollar of income was buying proportionately more, so that from that point of view he is about even. But of course this does not take into account the man who bought three-and-one-half per cent. bonds twelve years ago at high prices, is getting a steady income fixed at that time, but receives less for his dollar.

Prices cannot go on rising and the value of the dollar depreciating forever. There must be a point of suspension; and if all experience goes for anything the pendulum will swing back again some distance toward the time when the average investor was getting fewer dollars on his investment and was buying more for those dollars.

The average man cannot be trained in finance to pick out the exact time when there will be no change in the value of the dollar, from whatever causes that may come about, if there were such a time. He must keep his money moving, taking whatever income the times yield and doing the best he can with his dollar. He need not hold his investment steadily for such a long time that he will bear the full burden of a long swing of depreciation of his dollar of income. He can sell, or trade, or work out in various ways, with the aid of his investment banker, some method in which he may fare better.

POINTS FOR INVESTORS

ASCERTAIN if possible how wide the syndicate on a new bond issue is spread. If it is very wide, extending over the country, or perhaps also being carried abroad, there is likelihood that the distribution of the securities will be accomplished easily and their market position correspondingly strengthened. As a general principle, the wider the syndicate the better the position of the issue, since there is less overlapping of the various underwriters in their effort to dispose of the securities.

* * *

IF there is a period of uncertainty existing in which the best judges are not quite agreed as to the immediate outlook, it might be well to put funds into short term notes the maturities of which are spread over a nine-months' or year period. This would net a return of from 4½ per cent. to 5 per cent., which would be somewhat better than that received in the trust company or bank holding such funds, and would produce cash at various times at or near the psychological moment to take up a heavy commitment of securities for a longer hold.

* * *

IF at all possible call at your banker's offices occasionally and have a personal talk over the security markets and conditions generally. This will be much more satisfactory than asking a letter, as the situation can be gone over in all its aspects and a broad general view can be obtained.

* * *

DON'T accept the statement that such and such a bond is legal for the savings banks of a certain State as evidence that it is of the highest grade. This would hold in the case of two or three States, but there are other States in the Union that permit their savings banks and trustees to invest in such a wide range of securities that they get beyond real conservatism.

THE highest degree of scientific investment is that which combines a wise selling with judicious buying. It is comparatively easy to make purchases of the highest grade bonds and stocks, and especialy so if no particular regard is given to the time of buying, that is to say, if buying is done as funds are available; but to dispose of some, take up others, and at another time dispose of others and make a re-arrangement of schedules, all to the enlargement of the average income obtained, is to give the operations the dignity of science.

* * *

DO not be overconfident in your own ability to handle your investments without the least advice from others who perhaps are much better versed in the matter of investments than you are. It is well to become familiar with the principles involved, but it is not easily possible for the average investor to become acquainted with many of the finer points of the subject. Sometimes the neglect of just one of these fine points makes an investment an unfortunate affair in the end.

* * *

BEFORE bidding for bonds of a municipality it is always well to consult some investment specialist, or at least some one who is conversant with the conditions in that branch of the bond market, that the bid may not be made too high. Comparatively few private investors make bids of this kind, but when they do they generally offer prices far above those bid by the investment houses.

* * *

DONT hesitate to ask questions. In reading a circular jot down every question that occurs to you and ask it of the firm issuing the securities. Circulars vary in their completeness. The best of them must necessarily omit many things through lack of space.

THE BARGAIN INDICATOR

Comparative Earnings of Important Stocks

NOTE—The minus sign (—) before figures below indicates a DEFICIT for the year equal to the per cent. on stock given. Additions and betterments are included in earnings given, wherever distinguishable from ordinary expenses of maintenance, since earnings invested in improvement of the property increase the equity of the stockholders and therefore render the stock more valuable. The value of a stock cannot be judged by its position in the table ONLY. Earnings for successive years as given should be carefully examined, with a view to stability and growth as well as amount. Latest earnings will be found in table of "Monthly Net Earnings" or "Investment Digest."

Railroads	Present div. rate.	Earnings on par for fiscal year ending on any date during 1906.	1907.	1908.	1909.	1910.	1911.	1912.	Present price.	Earnings last fisc. yr. on pres. price.	Notes.
Southern Railway com....	0	1.9	—0.6	—2.2	0.5	2.3	3.1	3.1	25	12.4	Pfd. now on 5% basis.
St. Louis S. West. com...	0	—2.7	3.7	—4.2	—2.5	—1.1	1.4	3.8	32	11.9	Pfd. now paying full div. of 5%.
Louisville & Nashville.....	7	10.6	10.7	7.5	14.3	17.3	14.2	15.9	134	11.9	Controlled by Atl. Coast Line.
Hocking Valley com......	7	9.9	11.2	6.0	8.3	18.2	16.7	16.6	143	11.6	
Twin City Rapid Tran. com	6	8.1	8.2	8.3	9.9	10.9	11.0	11.3	105	10.8	
Atlantic Coast Line.......	7	10.8	6.3	5.6	9.4	12.0	12.8	12.1	123	9.8	Holds control of Louisville & N. by stock ownership.
Norfolk & Western com...	6	9.7	9.0	7.1	8.7	11.6	9.0	10.1	104	9.7	Controlled by Penna.
Colorado & Southern com.	1	3.5	4.5	4.8	4.9	7.3	5.2	2.6	27	9.6	Controlled by C., B. & Q. (Hill management).
Brooklyn Rapid Transit...	5	4.8	4.4	4.1	4.2	5.6	6.8	8.3	87	9.5	Subways will doubtless enlarge earnings eventually.
Chesapeake & Ohio.......	5	7.3	5.4	4.4	6.4	10.0	5.1	6.8	72	9.4	Earns. 1911-12 reduced by Chicago exten.
Union Pacific com........	10	14.2	16.5	16.2	19.1	19.2	16.6	13.8	148	9.3	
Canadian Pacific	10	14.1	13.7	10.6	8.6	16.0	17.3	19.6	222	8.8	Div. 7% R. R.; 3% land sales.
Lehigh Valley com........	10	18.2	20.0	19.2	15.4	23.0	16.5	13.2	154	8.6	
Seaboard Air Line Ry. pfd	0	....	....	....	....	....	7.6	3.7	44	8.4	
Delaware, Lack. & Western	20	22.2	38.5	40.8	52.8	35.4	31.8	33.2	400	8.3	
Great Northern pfd.......	7	13.0	11.8	7.1	8.3	8.5	8.3	10.3	126	8.2	Has large equity in C., B. & Q. and Canadian extensions.
Minn., St. P. & S. S. M. com	7	11.7	9.6	8.4	8.8	15.7	5.3	11.1	135	8.2	Pfd. and com. share above 7%. Contr. by Can. Pac.
Reading com.............	8	13.9	13.0	12.7	13.2	16.1	13.8	12.5	155	8.1	Including additions and betterments. Controls Jersey Cen.
Atchison com............	6	11.8	15.0	7.7	12.1	8.9	9.3	8.2	101	8.1	
Southern Pacific com.....	6	8.1	12.5	7.4	10.2	13.0	9.6	7.9	99	8.0	
Pennsylvania Lines	6	11.7	10.7	9.0	11.0	9.3	8.6	9.3	119	7.8	Has paid divs. since 1856.
Delaware & Hudson......	9	12.6	15.2	12.4	12.2	12.5	12.3	....	159	7.7	
Buff., Roch. & Pittsb. com	6	8.6	8.7	6.2	6.3	7.3	8.0	8.4	109	7.7	Pfd. and com. share equally above 6%.
Baltimore & Ohio.........	6	12.6	9.9	5.1	7.1	8.9	6.9	7.6	100	7.6	
N. Y., N. H. & Hartford..	8	12.2	9.2	5.4	7.4	10.3	7.1	8.5	116	7.3	
Pittsb., C., C. & St. L. com	5	8.6	8.8	7.2	9.8	6.1	7.0	....	97	7.2	Pfd. and com. share above 5%. Controlled by Penna. Co.
Cleve., C. C. & St. L. com	0	4.1	3.1	0.4	4.8	2.1	2.8	3.9	55	7.1	
Northern Pacific com.....	7	14.5	15.1	12.8	10.7	9.0	8.2	7.9	115	6.9	Large equities in lands and C., B. & Q.
Denver & Rio Grande pfd.	0	8.1	9.1	7.7	6.6	8.3	4.7	2.0	33	6.1	Contr. and finances W. Pac., wh. doesn't earn fxd. chgs.
N. Y. Cen. & Hudson R..	5	4.6	6.2	5.1	7.7	6.4	5.7	6.2	106	5.8	Controls 1/7th Rdg. through Lake Shore.
Chicago & Northw'n com..	7	14.8	12.7	11.2	11.4	7.7	8.0	7.1	134	5.3	Pfd. and com. share above 7%.
Illinois Central	7	....	....	8.4	7.4	7.1	10.3	3.2	121	2.7	Div. paid since 1863.
N. Y., Ontario & Western	0	2.0	2.8	2.6	2.3	2.3	2.0	0.8	31	2.6	
Erie, com................	0	2.2	3.0	—3.7	0.3	2.9	2.5	0.7	27	2.6	
Western Maryland com...	0	....	....	....	....	0.9	0.4	0.6	41	1.5	Connection with N. Y. C. completed. Will help earnings.
Chic., Mil. & St. Paul com	5	12.3	10.5	9.5	7.2	8.0	7.1	1.6	109	1.5	
Rock Island Co. pfd......	0	....	....	....	....	1.6	3.8	0.5	36	1.4	R. I. Co. owns 94% of stock of R. I. Lines.
Chicago Gt. Western pfd..	0	....	....	....	....	1.2	1.9	0.4	29	1.4	
Kansas City Southern com	0	0.3	5.4	2.6	3.4	2.2	2.7	0.2	25	0.8	
Wisconsin Central com...	0	1.7	3.2	—0.6	0	2.5	—4.3	0.3	49	0.6	Leased to M., St. P. & S. S. M. (Can. Pac. system).
Wabash pfd..............	0	—5.4	0.9	0.3	—0.5	1.3	—1.2	....	11	0	Now undergoing reorganization.
Toledo, St. L. & West pfd	0	4.7	6.4	0.2	1.0	2.0	—0.6	—0.5	26	0	Earnings given exclude divs. on Alton, now discontinued.
St. L. & San Fran. 2d pfd	0	13.2	24.7	1.6	8.2	5.8	8.3	—0.1	24	0	Entitled to 4% before com. divs.
Missouri Pacific	0	8.1	9.9	3.7	1.3	3.3	—6.3	—2.4	37	0	
Mo., Kansas & Texas com.	0	1.8	5.0	0.4	0.7	0.8	2.0	—0.8	25	0	
Minneapolis & St. L. pfd..	0	10.4	7.8	2.7	—2.4	1.9	1.5	—11.9	43	0	
Lake Erie & Western pfd.	0	3.1	2.0	—2.0	0.8	—0.2	—0.1	....	28	0	Controlled by Lake Shore.
Chicago & Alton pfd......	0	4.9	9.0	6.5	8.2	5.4	0.6	—1.7	33	0	Contr. by Tol., St. L. & W.; U. P. owns $10,343,000 pfd.

Preferred stocks earning more than the per cent. to which the dividend is limited, but now receiving either no dividend or less than said limit:

Erie, 2d pfd	0	19.4	24.9	—22.1	6.4	24.3	21.7	9.2	34	27.1	Entitled to 4% before com. divs.
Erie, 1st pfd	0	10.4	12.3	—3.4	6.1	12.1	11.2	7.0	45	15.6	Entitled to 4%.

Industrials

Industrials	Present div. rate.	Earnings on par for fiscal year ending on any date during 1906.	1907.	1908.	1909.	1910.	1911.	1912.	Present price.	Earnings last fisc. yr. on pres. price.	Notes.
General Motors com	0	....	....	....	....	....	15.7	17.3	30	57.7	1911 earnings 10 mos. only.
Am. Beet Sugar com	0	2.1	1.0	4.2	7.0	7.3	10.9	13.5	28	48.2	Will be affected by tariff reduction.
Central Leather com	0	0.4	0.4	1.3	6.3	—2.1	—5.1	8.6	25	34.4	Earned 5.2% first 9 mos. 1912.
Railway Steel Spring com.	0	8.7	8.6	—1.3	5.3	6.0	0.3	5.8	28	20.7	
Bethlehem Steel pfd	0	5.1	10.8	2.4	5.3	13.4	13.6	....	69	19.7	
Union Bag & Paper pfd	0	7.3	7.0	7.4	6.2	5.4	5.5	5.3	30	17.7	In arrears 18¾% on 7% cum. div.
Am. Malt Corp. pfd	5	2.8	—4.0	10.6	6.2	3.0	8.8	9.3	53	17.5	Divs. in arrears.
American Woolen com	0	3.5	—3.3	—3.9	5.2	2.2	2.1	2.9	18	16.1	Subject to tariff adjustment.
Colorado Fuel & Iron com.	0	1.7	0.9	0.4	2.1	4.0	3.2	4.8	33	14.5	Pfd. in arrears 39%; 35% just paid.
Am. Cotton Oil com	0	3.8	8.7	3.2	10.4	6.8	—1.2	6.5	45	14.4	
Am. Steel Foundries	2	5.9	14.0	0.3	0.1	6.1	—1.5	4.6	33	13.9	1911 earns. are 17 mos.
Am. Agricul. Chem. com	4	4.1	6.2	6.1	7.5	10.4	9.1	7.3	53	13.8	
Inter. Harvester com	5	5.1	6.5	7.8	17.8	14.8	14.2	....	106	13.4	Gov't suit pending.
Inter. Paper pfd	2	8.9	7.2	7.3	2.7	4.5	5.3	5.4	43	12.6	6% cum. divs. in arrears.
Am. Hide & Leather pfd	0	1.9	2.2	—0.1	11.2	—5.6	0.8	3.2	26	12.3	
U. S. Realty & Imp	5	4.8	6.0	7.7	9.2	9.7	9.4	8.3	68	12.2	Controls Geo. A. Fuller Construction Co.
American Can pfd	7	5.1	6.4	6.6	6.7	6.8	7.1	14.2	121	11.7	Arrears 8½%. 1912 earngs. are after chgs. on new bonds.
U. S. Rubber com	4	4.1	4.4	0.2	4.0	7.8	2.2	6.3	60	10.5	
Corn Products pfd	5	....	7.2	8.5	8.2	6.9	7.0	6.8	65	10.5	Divs. in arrears. Earned 10 mos. to Dec., 1912, 5.7%.
Utah Copper (par $10)	30	....	5.9	23.3	29.5	34.6	39.7	53.1	$51	10.4	
Sears-Roebuck com	7	6.6	8.5	4.5	18.4	20.5	17.0	19.3	190	10.2	In 1911 p'd a 33⅓% stock div.
Va.-Carolina Chem. com	3	4.8	5.9	3.7	7.1	10.4	3.1	3.3	33	10.0	Owns Southern Cotton Oil Co.
General Electric	8	11.7	11.6	10.2	7.4	16.7	13.7	....	138	9.9	Jan., 1913, 30% stock div. 8 mos., 1912, earn. 9.7%.
United States Steel com	5	14.4	15.7	4.0	10.5	12.3	5.9	5.7	60	9.5	U. S. Gov't suit pending. Reduced tariff probable.
Am. Smelting & Refin. com	4	10.6	12.8	7.0	7.7	7.1	6.3	....	69	9.1	
Westinghouse Elec. com	4	....	....	....	....	7.6	12.3	6.2	67	9.0	
Distillers' Securities	0	6.4	7.8	1.5	2.2	2.3	3.1	1.5	17	8.8	Holds maj. U. S. Ind. Alcohol.
National Biscuit com	7	7.1	7.6	8.1	7.4	7.7	9.8	10.0	116	8.6	Fisc. yr. ended Jan. 31, 1913, earned 9.6%.
North American	5	3.2	4.7	4.8	6.0	6.2	6.2	....	78	7.9	Controls Street Ry. & Elec. Light Cos.
U. S. Cast Iron Pipe pfd.	4	14.0	14.7	5.4	1.2	4.4	3.9	4.2	54	7.8	Controls 75% of U. S. production.
American Tel. & Tel	8	8.2	9.0	10.1	9.0	10.0	10.0	....	132	7.6	Large equities in sub. co. earns. $50,000,000 stk. incr. 1912.
National Lead com	3	5.3	6.0	5.8	6.2	4.3	3.6	3.8	51	7.5	
Pacific Coast com	6	10.1	10.3	5.7	5.3	8.8	7.2	6.2	85	7.3	Com. and 2d pfd. share equally above 4%.
Am. Sugar Refining com	7	....	12.4	7.5	3.9	3.8	9.6	7.8	112	7.0	1911 earns. exclude $3,450,627 chgd. "improvements."
People's Gas Light & Coke	7	6.9	7.6	8.4	8.9	9.0	8.9	7.5	110	6.8	Recently won suit against 80c. gas.
General Chemical com	6	7.3	5.7	4.5	14.4	15.6	15.5	11.5	180	6.4	5% stock div. 1912.
Amalgamated Copper	6	5.9	9.2	4.3	2.4	3.9	3.9	4.3	69	6.2	
Pittsburgh Coal pfd	5	8.1	10.0	1.7	3.0	7.2	5.1	....	83	6.1	Divs. in arrears.
Western Union	3	5.9	5.0	1.7	5.8	5.7	5.4	4.0	68	5.9	Controlled by Am. Tel. & Tel.
Republic Iron & Steel pfd	7	12.2	18.6	9.8	8.1	11.7	9.7	5.1	86	5.9	Divs. in arrears 5¼%.
Consolidated Gas. (N. Y.)	6	....	3.9	4.9	6.7	7.4	7.6	7.5	131	5.7	
Tennessee Copper (par $25)	6	16.5	16.0	6.5	6.8	8.9	8.1	....	$36	5.6	Income partly from sulphuric acid. Add'l 4% div. Aug., 1912.
Pullman	8	14.7	11.6	9.8	10.9	11.6	9.3	8.7	158	5.5	
Am. Car & Foundry com	2	4.5	20.1	23.8	2.6	6.6	7.1	2.5	49	5.1	$600,000 set aside for com. divs.; equal 2% on stock.
Pressed Steel Car com	0	17.2	13.3	—5.8	7.7	5.5	0.1	0.8	26	3.1	
Sloss-Sheffield com	0	5.3	9.9	4.9	6.6	2.0	—0.6	0.8	35	2.3	
Am. Locomotive com	0	17.7	18.1	11.1	—3.1	1.3	7.3	0.5	36	1.4	Also mfrs. autos.
Inter. Steam Pump com	0	....	3.7	2.0	1.4	2.8	2.0	—0.9	9	0	1911 earns. 2.9%, 18 mos. Fisc. yr. changed.
Nat. Enam. & Stamp. com.	0	1.7	6.7	—2.1	1.1	1.0	1.1	—1.6	14	0	To sinking fund, 1911, $114,000, eq. 0.7% on com.
Pacific Mail	0	1.4	0.7	—2.1	—1.7	—1.1	—1.0	—0.1	27	0	Contr. by So. Pac. Panama Canal should incr. earn's.
American Linseed pfd	0	....	....	....	5.8	4.5	2.6	—2.8	28	0	

Monthly Net Earnings

THIS table gives the returns of the principal railroads down to latest dates available, and should be studied in connection with the "Bargain Indicator," which shows annual results, and the "Investment Digest," where other details of earnings will often be found.

		Current month.	Change from last yr.	Fiscal yr. to date.	Change from last fisc. yr.	Stock outstanding (in millions). Pref.	Com.
Atch., Top. & S. Fe	Jan.	$2,627,155	+$449,812	$23,974,838*	+$3,222,888	114	172
Atlantic Coast Line‡	Jan.	1,004,876	+338,268	5,296,571*	—28,947	...	58
Baltimore & Ohio	Jan.	2,100,015	+801,786	18,124,243*	+1,962,421	59	152
Boston & Maine	Jan.	479,137	—128,703	7,011,256*	+450,087	3	39
Buff., Rochester & Pittsb.	Jan.	225,200	—781	1,962,234*	+140,595	6	10
Canadian Pacific‡	Jan.	1,662,373	+579,515	28,793,526*	+3,240,420	66	200
Central of Georgia	Jan.	226,984	+31,152	2,415,516*	—127,903	15	5
Central R. R. of N. J.‡	Jan.	693,244	+87,231	6,898,051*	+781,096	None	27
Chesapeake & Ohio	Jan.	831,199	+69,734	6,732,521*	—33,226	...	62
Chicago & Alton‡	Jan.	20,167	—70,314	1,724,392*	—268,295	19	19
Chic., Burl. & Quincy	Jan.	2,808,408	+889,448	22,849,752*	+4,186,504	None	110
Chic. Gt. Western	Jan.	254,746	+261,645	2,430,660*	+520,922	41	45
Chic., Mil. & St. Paul‡	Jan.	1,734,931	+1,497,896	19,225,166*	+7,802,631	116	116
Chic. & Northwestern‡	Jan.	1,425,320	+1,183,951	16,017,510*	+3,523,792	22	130
Cleve., Cin., Chic. & St. L.	Jan.	468,256	+227,911	468,256†	+227,911	10	47
Colorado & Southern	Jan.	345,661	+55,111	3,157,046*	+23,306	1st, 8; 2d, 8	31
Delaware & Hudson	Jan.	824,705	+267,669	824,705†	+267,669	None	42
Del., Lack. & Western	Jan.	1,316,492	+349,491	9,826,717*	+1,269,114	None	30
Denver & Rio Grande‡	Jan.	376,489	+96,404	4,483,389*	+909,032	49	38
Erie‡	Jan.	1,083,017	+473,912	10,021,569*	+888,569	1st, 47; 2d, 16	112
Gt. Northern	Jan.	1,337,322	+364,636	22,929,673*	+3,407,383	209	None
Hocking Valley	Jan.	145,928	—55,821	1,767,518*	+61,095	None	11
Illinois Central‡	Jan.	863,936	+1,130,592	6,864,188*	+2,617,869	None	109
Kansas City Southern	Jan.	349,021	+201,305	2,519,277*	+692,195	21	30
Lake Erie & Western	Jan.	85,717	+34,732	85,717†	+34,732	11	11
Lake Shore & Mich. So.	Jan.	1,593,770	+548,446	1,593,770†	+548,446	None	49
Lehigh Valley	Jan.	909,447	+156,307	8,891,447*	+1,319,788	...	60
Long Island‡	Jan.	def. 16,517	+11,881	def. 16,517†	+11,881	None	12
Louisville & Nashville	Jan.	1,331,145	+176,292	9,901,123*	—533,330	None	60
Michigan Central	Jan.	682,637	+98,565	682,637†	+98,565	None	18
Minn. & St. Louis‡	Jan.	209,789	+271,060	1,699,517*	+835,210	5	15
Minn., St. P. & S. S. Marie‡	Jan.	482,319	+217,648	5,693,203*	+1,545,552	12	25
Mo., Kansas & Texas	Jan.	694,916	+205,977	7,003,383*	+2,211,224	13	63
Missouri Pacific	Jan.	1,408,654	+482,638	10,338,760*	+3,234,068	None	82
National Rys. of Mexico	Jan.	2,102,128	—410,049	15,549,716*	—1,759,772	1st, 57; 2d, 240	149
N. Y. Central	Jan.	2,082,029	+475,110	2,082,029†	+475,110	None	222
N. Y., Chic. & St. Louis	Jan.	265,050	+111,465	265,050†	+111,465	1st, 5; 2d, 11	14
N. Y., N. H. & H.	Jan.	1,134,094	—238,887	14,373,803*	+781,142	None	157
N. Y., Ont. & Western‡	Jan.	148,041	+60,074	1,775,328*	+398,599	None	58
Norfolk & Western	Jan.	1,471,154	+605,428	9,634,648*	+1,339,099	22	97
Northern Pacific	Jan.	1,736,875	+819,151	18,998,600*	+2,972,989	None	248
Pennsylvania R. R.‡	Jan.	2,475,039	+739,193	2,475,039†	+739,193	None	453
Pere Marquette‡	Jan.	185,300	+270,504	2,084,604*	+115,831	12	16
Pittsb., Cin., Chic. & St. L.‡	Jan.	688,237	+79,172	688,237†	+79,172	27	37
Reading Companies	Jan.	2,527,822	+776,406	17,263,129*	+5,821,525	1st, 28; 2d, 42	70
Rock Island	Jan.	928,037	+192,787	12,067,971*	+1,607,342	49	90
Seaboard Air Line‡	Jan.	589,913	+280,887	3,578,197*	+393,966	23	37
St. Louis & San Fran.	Jan.	1,262,896	+325,878	9,660,921*	+1,145,983	1st, 4; 2d, 15	28
St. Louis Southwestern‡	Jan.	287,969	+111,991	2,550,090*	+270,280	19	16
Southern Pacific‡	Jan.	2,185,667	+175,660	28,875,332*	+3,630,508	None	272
Southern Railway	Jan.	1,327,693	+111,837	12,842,808*	+659,672	60	120
Texas & Pacific‡	Jan.	224,128	—19,833	2,227,713*	—674,293	None	38
Tol., St. L. & Western‡	Jan.	135,773	+72,117	727,684*	+161,865	10	10
Union Pacific‡	Jan.	1,729,005	+460,310	23,593,577*	+2,962,465	99	216
Wabash‡	Jan.	281,234	—38,559	4,279,613*	+402,846	39	53
Western Maryland‡	Jan.	126,458	+7,591	924,660*	—430,968	10	49
Wheeling & Lake Erie‡	Jan.	109,469	—27,874	1,498,445*	+77,224	1st, 4; 2d, 11	20
Wisconsin Central	Dec.	333,934	+141,521	2,041,692*	+324,718	11	16

*Fiscal year ends June 30. †Fiscal year ends Dec. 31. ‡Net earnings are after deducting taxes.

The Investment Digest

THE sources of items are indicated as follows: *Leading financial and investment publications. †Banking and Stock Exchange houses. §From official sources. Neither "The Magazine of Wall Street" nor the authorities quoted, guarantee the information, but it is from sources considered trustworthy. We endeavor to present in a few words the essential facts in regard to each company. For additional earnings, see also "Bargain Indicator" and "Monthly Net Earnings."

Allis-Chalmers.—PROGRESS OF REORGANIZATION.—*Judge Geiger's only stipulation regarding sale of property is that price must give bondholders 62½c. on the dollar. This makes each $1000 bond worth $625, but voting trustees are confident that those who deposited their stock will eventually receive a greater return. 7 months ended Jan. Co. earned $225,000 after all charges, receiver's expenses, etc., but without payment of interest.

American Beet Sugar.—THE SITUATION.—†This yr., besides handicap of low prices, sugar Cos. are carrying a large amount of unsold sugar. However, stocks in dealers' hands are low, and with the tariff out of the way, buying on a more normal scale might be expected. Probably low prices will continue as result of large 1912 crop. Cuban production probably 2,000,000 tons against 1,850,000 tons last yr. and 1,483,000 yr. before.

American Brake Shoe & Foundry.—INCREASED DIVIDEND.—*Co. declared qtly. div. of 2% on pref., placing it on 8% basis against 7% heretofore.

American Can.—DISSOLUTION SUIT PROBABLE.—*U. S. Gov. is introducing evidence before Grand Jury at Baltimore looking toward dissolution. Co. now employs 15,000 men. Lower tariff would aid it with cheaper raw materials. Co. has never yet had any labor troubles and on most of its lines has no competitors.—*24% back pref. divs. declared payable April 1, leaving 8¾% still due. Co. has purchased Western Canada Can Co. in British Columbia for $200,000.

American Car & Foundry.—BIG SURPLUS.—*Good buying of com. stock is reported around 50. Doubtless big surplus of about $25,000,000 will some day be distributed as an extra div. Net earnings yr. ending April, 1913, will probably equal 5 or 6% on com., against 2½% in 1912 and 7.2% in 1911. Co. has 5 to 6 mos.' orders now on the books.

American Cities.—PROGRESS OF COMPANY.—This Co., organized June, 1911, is earning at rate of 3.4%, compared with 2.1% last yr. Co. owns $45,700,000 securities of sub. Cos., from which earnings in 1912 were $2,282,593.

American Coal Products.—DISSOLUTION SUIT.—*Attorney-General Wickersham held combination in violation of Sherman Act and filed suit. Co. was incorp. in 1903 and owns and operates about 40 plants, making coal products such as tar, ammonia, roofing material, etc. Pref. stock, created in 1912, has paid 4 qtrly. divs. of 1¾%; com. now pays 7%. Earnings on com. in 1912 were about 10.6%.

American Cotton Oil.—COMMON DIVIDENDS IMPROBABLE.—§Director says: "No discussion on com. divs. Our aim is to build up the business. Expenditures are at rate of $500,000 yrly. for machinery and plants, exclusive of ordinary improvements and replacements."

American Agricultural Chemical.—PRICES WELL MAINTAINED.—*To date there has been no price cutting. Gain of 300,000 to 500,000 tons consumption of fertilizers in the South is probable. Loss last yr. resulted from price war. This season Co. should make and sell 250,000 to 300,000 tons, and profit of $2 a ton would give nearly $600,000 net, against practically nothing in Southern fields last yr. Earnings will take care of $400,000 increase in pref. divs. and leave balance of 7 or 8% for com.

American Light & Traction.—A REMARKABLE RECORD.—*Net earnings 1912 were 29.1% on pref., against 28.3% in 1911, 26.1% 1910, 22.7% 1909. After 6% divs. on pref., com. earned 26% in 1912. Com. is quoted 395 bid, 405 asked, while 6% pref. is 108 bid, 111 asked.

American Locomotive.—ORDERS.—†Jan. orders included 316 locomotives, whereas in Jan. 1912, all Cos. in U. S. booked only 250. Com. stock promises 5 or 6% for yr. ending June, 1913.—*In last 4 yrs. Co. has increased productive capacity 20 to 25% and has concentrated plants, closing down 2 or 3 small ones.

American Pneumatic Service. — INCREASED DIVIDENDS.—*Directors raised div. on 2d pref. from 2% to 3% yrly. Regular div. of 3½% on 1st pref. U. S. Gov. has been investigating cost of pneumatic tubes with view to purchase, in which case Co. would retire its bonds and 1st and 2d pref. stock. Co. now has almost enough cash on hand to retire its total funded indebtedness.

American Radiator Co.—ANNUAL REPORT.—*Yr. ended Jan., 1913, earnings

equaled 22% on com. stock, against 17.9% preceding yr. Cash assets were $2,563,000 and accounts receivable $2,002,000; total surplus $6,226,000. At special meeting of stockholders increase in com. stock from $7,000,000 to $9,-000,000 was authorized.

American Smelting & Refining.—DIRECTOR'S STATEMENT.—§"In spite of gloom which pervades the Street we find nothing in our affairs to warrant pessimism. Our metals are moving into consumption at fair prices. We have oversold our lead production and have practically no stocks on hand against 50,000 tons 1 yr. ago. Recent sales of copper have been heavy. We have been conservative in divs., so that our position grows stronger. The 69,500 shares of Smelting com. which Guggenheim Exploration Co. bought were purchased in the open market."

American Snuff.—ANNUAL REPORT.—*Yr. ending Dec. 1912, surplus over pref. div. equaled 16.3% on com. Divs. paid on com. 14.5%. Reserve funds, taken out of earnings of previous yrs. and now taken into surplus, and profits from sale of securities, $1,012,841.

American Steel Foundries.—ANNUAL REPORT.—*For 1912 total income was $1,-588,766, against $167,807 in 1911. Charges were $5,000 larger and depreciation $123,000 more, leaving surplus of 4½% on stock, compared with large deficit in 1911. Plants running 90% of capacity and booked 6 mos. ahead. Orders on hand are with one exception largest in history.

American Sugar Refining.—PROBABLE EFFECT OF TARIFF.—†During 1912 prices of raw sugar declined so that manufacturers now have considerable stocks on hand for which they paid above current prices. Co.'s per cent. of total production dropped below 40% for 1st time being 38.5%, against 42% in 1911. Present indications point to surplus over divs. of between 1 and 2% on com. Co would not be harmed by moderate reduction in tariff, as it is a refiner and could make a refiner's profit provided parity is maintained between raw and refined. It is true that Co. has about $20,000,000 invested in beet sugar concerns which would be affected, but these investments are carried on the books at only 65% of par value and are mostly preferred stocks. It seems unlikely that any tariff would destroy the earning power of these pref. stocks. (See Am. Beet Sugar.)

American Tel. & Telegraph.—CURRENT BUSINESS.—*Jan. gross revenues were at increase of 10% over 1912. Long distance earnings increased 12%. As result of convertible bond offering, Co. has gained stockholders, now having over 51,000, largest in history. Nearly 90% of new convertibles were paid in full on 1st instalment, so that Co. received about $60,000,000 where only $34,000,-000 was called for. Proceeds of new bonds will take care of 1913 and 1914 requirements and perhaps longer.

American Tobacco.—1912 EARNINGS.—*Earnings last yr. probably exceeded 30% on com. after div. on pref. Since Jan. 1, gain in business has been still greater.

American Woolen. — POSITION OF PREF. STOCK.—*Pref. now yields over 9% on price. Business is speculative and tariff-protected, which accounts for weakness of stock. In recent yrs. margin of safety above divs. has been small. However, Co. has $70 a share in quick assets or within $8 of present price on pref. stock. For 1912 net profits increased $497,071 over previous yr., and bal. equals 2.9% on com. stock—slightly less than in 1911.—†Co.'s yrly. gross business exceeds $50,000,000 and it has paid 7% divs. on pref. since incorp. 14 yrs. ago. Average net earnings last 6 yrs., as compared with preceding 6 yrs., have remained stationary, while pref. div. requirements increased nearly 80%. Co.'s retirement of $10,000,000 com. stock through purchase in the open market was criticized. Net working balance Jan. 1 was $26,759,000, compared with $31,729,000 2 yrs. ago. So far as net result of balance sheet is concerned, effect of Co.'s stock purchase was as though it had borrowed the money at the banks. However, 2 new mills, Wood, Worsted and Ayer, were built during this period and part of the cost has already been paid out of earnings. Co. on the whole has shown fair margin over pref. divs. and there is good reason to hope that these may be continued.

American Writing Paper.—INCOME ACCOUNT.—*After deducting bond interest of $850,000, sinking funds $100,000, and other charges of $306,392, Co. had surplus of $341,-257 on its $12,500,000 pref. stock.

Assets Realization Co.—ANNUAL REPORT.—*Yr. ended Dec., 1912, showed about 14% earned on stock. Surplus was in excess of $1,400,000.

Associated Merchants. — NORMAL EARNINGS.—*For 6 mos. ended Feb. net earnings were $722,383, against $721,073 in 1912 and $813,265 in 1911. Present business is best in the Co.'s history. Pres. Claflin says there is some cause for apprehension over tariff changes. (See United Dry Goods.)

Atchison, Topeka & Santa Fe.—CONVERTIBLE BONDS.—*Convertible 5s may be exchanged for com. stock at par up to June 1; hence, if held to maturity in 1917, buyer gets 5% on his money and also receives a call on Atchison stock at par good to June 1. Likewise convertible 4s, 1960, selling under par, represent a ten-yr. call on this stock at par. Gross earnings 7 mos. of fisc. yr., $70,-927,000, against $63,270,000 last yr.; net, $21,-248,000, against $18,292,000. Prospect of $5,-000,000 gain in net full 12 mos.

Atlantic Coast Line.—NEW BONDS.—*Bankers who purchased $3,500,000 4% bonds due 1959, are offering them to yield about 4.7%. This sale provides Co. with over half the money used in subscribing for 51% of $12,000,000 new L. & N. stock. Remainder can be taken care of out of earnings.

Baldwin Locomotive.—1912 RESULTS.—*Total production 1912 $28,924,000; net earn-

ings after charges $3,698,000; profits after divs. $1,898,000. Pres. Johnson says unfilled orders are larger than at any time since acquisition of the property.

Baltimore & Ohio.—EARNINGS.—*In 7 mos. ended Jan. gross earnings increased 14% over last yr. and net increased over 12%. Almost ideal operating conditions were responsible for this yr.'s gain.

Bethlehem Steel.—PREFERRED DIVIDEND.—*Directors declared 5% out of 1912 earnings, payable during 1913. In 1913 Co. may show 15% on com. after 7% on pref. Earnings on pref. 1910 to 1912 inclusive were 14% yrly. Co. has largest individual steel plant in the world, employing between 20,000 and 25,000 men. Iron capacity, 1,000,000 tons yrly. Pres. C. M. Schwab's object has been to diversity production and reduce costs. Business enough now on books to last 6 or 8 mos.

Boston & Albany.—CONDITION OF ROAD.—*Co.'s freight tonnage per mile is more than double any other New England road; passenger miles per mile of road greater than any other in U. S. with one exception. In locomotives per mile of road it is exceeded only by Pittsburg & Lake Erie and Reading Road has 247 bridges and within 3 yrs. has rebuilt 100; in current year will rebuild 25 more. Main line has 100-lb. rails throughout. Since 1900 $20,000,000 has been spent to improve property. (Controlled by N. Y. Cent.)

Boston & Maine.—PROSPECTS FOR NEW STOCK.—*Com. stock is selling at lowest level for many yrs. Mass. law requires that the $10,663,700 new stock be offered at par or higher, and current price below 90 does not augur well for new issue. However, no substantial block of B. & M. stock could be bought without raising the price to par. Possibility that New Haven may be obliged to provide B. & M. with funds by taking more than its share of new stock. If results continue like those of recent mos. little actual earning power on stock can be expected for 1913 fisc. yr. (Controlled by N. Y., N. H. & H.)

Brooklyn Rapid Transit.—OPERATING EFFICIENCY.—*Although Co. has had good weather, large net returns are also due to excellent physical condition, as result of $40,000,000 improvements, betterments and additions during past 7 or 8 yrs.

Brooklyn Union Gas.—DIVIDEND.—*Regular qtrly. div. 1½%. On alternate payments Co. has distributed 1% extra, making 8% yrly.

California Petroleum. — JANUARY EARNINGS.—*Current earnings are at rate of about 9% on com. after 7% on pref. Surplus increased $4,000 in Jan. through purchase of bonds for sinking fund at a discount. New topping plant will improve the showing for succeeding mos.

Canadian Car & Foundry.—INSUFFICIENT MATERIAL.—*Co. has difficulty in getting shapes and material from producers in U. S., so that it has been necessary to lay off a large number of men.

Canadian Pacific.—NEW STOCK.—*Subscriber for stock to be paid for currently up to Oct. 20, receives no income for period between Sept. 30 and Dec. 31, 1913, so that road has use of $105,000,000 3 mos. free. First instalment of 20% was overpaid about $2,000,000.

Case Threshing Machine.—ANNUAL REPORT.—*For 1912 net earnings were $2,770,000, against $1,509,000 in 1911. Charges and taxes $506,000, against $448,000 in 1911.

Central Leather.—A SPLENDID YEAR.—*Net profits in 1912 $7,709,000, against $2,278,000 in 1911 and $3,403,000 in 1910. To some extent the $14,000,000 expansion in gross sales was due to higher selling prices, increase being over 25% during the yr. But sales were larger—11,013,000 sides of leather against 9,794,000 in 1911, a gain of 12%. Increase in net earnings from lumber operations was due to 20% advance in prices and better demand. This favorable combination is not likely to appear again in any one yr. for some time to come, hence 1913 earnings will probably not equal 1912. Balance for com. in 1912 almost 9%, but as average for 4 yrs. has been only 3%, com. divs. not likely at present. Net working capital Dec. 31, $53,343,000, or $14,130,000 more than entire bonded debt, leaving all physical properties and $14,000,000 cash for the stock. Co. has turned banker and is loaning heavily in the Street. Can retire $2,680,000 bonds in May without refunding.

Chicago & Alton.—MATURING NOTES.—*$2,500,000 3-yr. notes maturing March 15, paid off in cash by sale of a block of the $20,000,000 6% bonds authorized last yr. Of the latter, $4,500,000 was sold last summer for improvements and clearing off floating debt.

Chicago, Milwaukee & St. Paul.—*ELECTRIFICATION of 450 miles of the Puget Sound through Montana & Idaho begins shortly. Management contemplates extending this work over the Cascade Mts. later. Will be operated by power generated from streams at 7 or more points. New type of motor will be used, to run 300 miles without inspection, while steam locomotives can run only 100 to 125 miles. Co. will begin with 50 of these motors for heavy work, built to haul 2,100 tons up a 1% grade. For 7 mos. ended Jan. Co. earned 7.1% on com., or at yrly. rate of 12%.—*Co. now earning at rate of 15% yrly. on com. stock, and Street believes 7% divs. will be resumed before long.

Chicago Pneumatic Tool.—ANNUAL REPORT.—*For 1912 earnings on stock were 13%. During 11 yrs. of Co.'s history earnings have averaged 9.3%. Divs. of $2,268,000 have been paid, leaving for the property $4,355,000; depreciation, development and foreign plants have taken $2,348,000; leaving surplus of $2,007,000. Working capital is $333,000 more than par value of $2,300,000 5% bonds outstanding. (Controlled by Beth. Steel.)

Chicago Railways.—IMPROVEMENTS.—*This year 42 miles of new track are pro-

jected, 150 new cars, 2 new substations of 14,000 KW. power, and rebuilding of car barns. Average mthly. increase in earnings for fisc. yr. 7 or 8%. Recent increases have been on an ascending scale.

Chesapeake & Ohio.—STEADY BUSINESS.—§Denied that Co. contemplates discontinuing divs. because of heavy finan. requirements. Pres. Stevens says, "Earnings better than last yr. and I think Co. will earn 7% this fisc. yr. Additions and bettermens have increased efficiency and reduced operating costs. Future was never brighter than today." Chairman Trumbull says, "Co. has no financing to do this yr. except for improvements. In 7 mths. ended Jan. Co. earned 4% on stock."

Colorado Fuel & Iron.—POSITION OF COMPANY.—†Declaration of 35% accumulated divs. on pref. reflects better condition of trade, but still more success of management in improving operating and finan. conditions. About 5 yrs. ago control passed to Rockefeller interests, who have undertaken extensive and intelligent upbuilding of property. They appear confident that Co. is on the road to better things. Operating ratio has declined from 86.1% in 1908 to 81.7% in 1912. Earnings on pref. 90% in 1912, against 14.7% in 1908. Gross earnings have shown steady growth while Eastern steel Cos. have suffered wide fluctuations. Pref. stock outstanding is only $2,000,000 8% cum., $34,235,000 com.; hence payment of back divs. required only $700,000, and the 39% remaining will take only $780,000. Co. could of course pay this off easily. Co. owns its own coal, iron and lime stone deposits, and as it sells in the West, is largely free from Eastern competition.

Continental Can.—FIRST DIVIDEND.—*Directors declared 2⅓% on pref. or at rate of 7% yrly. All of the $5,500,000 pref. stock was applied for in advance of public subscription. Co. takes over Continental Can of N. J. and Standard Tin Plate of Pa., which have grown from 175,900 boxes tin plate in 1905 to 1,290,000 in 1912. Last yr. the two companies made 420,000,000 cans against 48,000,000 in 1905.

Corn Products.—GOVERNMENT SUIT.—§Pres. Bedford says: "Gov. contention is that we were put together as a monopoly and therefore illegally. If so, we have been very unsuccessful, because there is more competition than ever before. At formation Co. had 90% of the business; now it has not over 50%. New plants in Argentina, the United Kingdom and elsewhere will further increase competition. Annual report will show 6½% on the pref., about the same as last yr."

Crex Carpet.—ANNUAL REPORT.—*Surplus for divs. in 1912 was 11.8% on stock against 10.3% in 1911 and 10.1% in 1910. For 2 yrs. 6% div. has been paid. Working capital Dec. 31 was $36.59 a share, with no bonded debt. Co. intends to erect a new plant but plan and situation have not yet been decided.

Crucible Steel.—*NEW PLANT will be operating July 1, consisting of 1 blast furnace, 8 75-ton open hearth furnaces, blooming mill and bar mill. It will furnish Co.'s other plants with raw material and will sell some in the open market. All plants are operating full with orders mos. in advance.

Deere & Co.—LARGE SALES.—*Jan. sales were 29% over last yr. and Feb. will probably increase nearly 40%. Yr. ended Oct. 1912 showed 11.8% on $20,178,000 com. stock.

Delaware, Lackawanna & Western.—ANNUAL REPORT.—*Gross earnings 1912 increased $1,000,000 but heavy operating expenses caused loss of $600,000 in net. Additions and betterments were $1,720,000 against $2,200,000 previous yr. Merchandise traffic increased but coal tonnage decreased. Equipment and maintenance expenditures were more liberal. Earnings on com. stock 33.2% against 31.8% in 1911.

Denver & Rio Grande.—IMPROVED OPERATING.—*In 2 yrs. of new management operating expenses have fallen from 82% to 72% of gross and transportation costs from 43% to 35%. Half yr.'s earnings were 2.5% on pref.

Detroit Edison.—CONTINUED IMPROVEMENTS.—*Increased business has required liberal improvements and betterments, so that new issue of bonds will be offered this yr. Jan. showed increase of $80,000 in gross and $42,000 in surplus over charges. Improvements in 1912 were over $3,000,000 and this yr. will be equally large.

Electric Bond & Share.—ANNUAL REPORT.—*Net for 1912 $1,226,000, against $707,000 in 1911. Pref. divs. 1912 $160,000, com. divs. $225,000, surplus $840,000. (Controlled by Gen. Elec.)

Emerson - Brantingham.—5 MONTHS REPORT.—*For 5 mos. to Dec., the dull season, earnings on com. have been at rate of 4¾%. Expected that $12,000,000 business will be done yr. ending Aug. 1, 1913, against less than $10,000,000 for aggregate of independents composing Co. in their last previous fisc. yrs.

Erie.—PROGRESS.—*Heaviest business in history. Jan. gross increased 14.6%; July 1 to Feb. 14 gross gained 9.6%. 300 automobile cars have been put in service, 65 Mikado locomotives, 5 Pacific passenger locomotives, 500 coke cars and 500 steel underframe box cars. Another order of 1000 steel underframes is partly delivered and in service. Co. recently ordered 10 Pac. freight locomotives, 10 Pac. passenger locomotives, and 25 steel express cars.

Federal Mining & Smelting.—NEW PROPERTIES.—*Co. has acquired controlling interest in the Flynn group of mines under 2 yr. bond for $150,000. Co. now owns all property between its Morning and Mace mines, about 5 miles apart, and plans development of holdings.

Ford Motor.—BIG GROWTH.—*This is largest American auto. concern. Net assets $25,000,000, employs 18,000 people, raw materials on hand about $7,000,000. Co. was built up from original cash capital of $28,000 until this yr.'s net profits will probably exceed $15,-000,000.

General Electric.—BIG ORDER.—*Co has secured largest single order ever placed for R. R. motor apparatus, to be used in electrifying suburban roads of Melbourne, Australia. City will spend nearly $12,000,000 in electrification of steam lines. Fisc. yr. ended Jan. Co. earned 16% on $77,335,000 cap. stock, equivalent to about 12.5% on present $100,000,000 stock, which includes last 30% stock div. Next stock div. not likely for several yrs. but day of extra distributions is not past. To date the earning power of Co. has not been affected by business unsettlement. In Jan. and Feb. orders were booked at yrly rate of $126,000,000, against $102,000,000 in 1912.

General Motors.—INCREASED BUSINESS.—*Up to Mar. 1 Co. received $41,738,-000 against $24,911,000 last yr. for same 7 mos. increase of 67%. Cars produced were 30,718, against 30,779 previous yr., increase of 43%. Pref. stock is working rapidly toward an investment position.

B. F. Goodrich.—DECREASED PROFITS.—*For 9 mos. ended Dec. net profits were $3,600,000, equaling balance of only 4½% on com. stock, and it is understood that earnings for past quarter have been still less. Average margin of profit on gross sales 1908-11 was 18%, but for 1912 less than 10%. With shoe and textile manufacturers, for instance, making only 5% to 7% on their turnover, it was only a question of time when profits on rubber tires must decline. There is now plenty of competition. Regular pref. div. declared.

Guggenheim Exploration. — FOUR YEARS RECORD.—†In 4 yrs., on unchanged capital of $20,800,000, Co. has paid over $8,-000,000 in divs. and surplus has increased over $10,000,000. Moreover, security holdings are carried on its books at cost, while at current prices they show nearly $12,000,000 excess over those prices.

Harriman Lines.—DISSOLUTION MUDDLE.—*Member of executive committee says, "West. Pac. will not be given for nothing privileges over So. Pac. lines for which U. P. was ready to pay a high price."—*So. Pac. 6% div. rate is safe, as earnings for 6 yrs. have averaged 7.9% on stock without including Cent. Pac. If there be any cause of distant anxiety it is in Cal. where rates, wages, prices, and cost of R. R. construction are all high. So far, however, State Commission has shown no disposition to reduce Co.'s earning power. Any move to reduce rates would hardly interfere with income for several yrs. to come.

International Harvester.—NEW LINES. —*Earnings on com. 1912 about 15%, after charging off $4,000,000 for various reserves. Cash surplus about $25,000,000. Five plants are now manufacturing so-called "new lines" —auto wagons, commercial cars, gasoline engines, cream separators, tractors, manure spreaders, etc., with total employees of 10,000.

International Nickel. — INCREASED DIVIDEND.—*Directors declared a div. of 3% on com. and 1½% on pref. Since Co. increased cap. in July, 1912, com. has received 7½%. The 2 previous divs. being 2½% and 2%.

International & Gt. Northern.—NEW EQUIPMENT.—*Purchase authorized of 1,000 freight cars, 10 consolidation locomotives, 12,000 tons 70-lb. steel rails, and ballasting of 200 miles of track. Funds provided by sale of bonds. Negotiations for sale of road to Mo. Pac. have been dropped owing to widespread opposition.

International Paper. — ANNUAL REPORT.—*Earnings 1912 equaled 10.4% on pref., or 5.65% on com. after allowing for 6% div. on pref. This is best showing since 1903. For the five years 1907 to 1911 scarcely anything was shown for the com. stk. Only 2% was paid on pref. last yr. and $1,131,615 was charged off for depreciation of plants, leaving actual balance for divs. of 5.35% on pref. Maintenance charges were over $1,-400,000. Pres. Dodge says industry is passing through period of trial owing to tariff changes, Canadian competition, increasing cost of wood, and refusal of Canada to permit export of cheap wood to U. S.—*Estimated recent U. S. Treasury ruling shuts out about 300,000 tons Canadian paper. This compares with 100,000 tons now imported, and Inter'l Paper Co. production of 525,000. There is now some overproduction of news print, hence Co. will turn 20% to 25% of capacity to other lines.

Interboro Rapid Transit.—NEW BONDS. —*First block of new bonds likely to be taken before June 30, according to original agreement. Present $30,552,000 1st mort. 5's expected to be retired at 105, leaving new bonds only charge against Co. Cumulative prior claim of Co. on net earnings of enlarged system is $14,568,000; all has passed Commission except $1,800,000, which is tied up in elevated 3rd tracking controversy.—*For 8 mos. Co.'s gross is $925,000 over last year, so that full yr. will show satisfactory gain.

International Smelting & Refining.—NO NEW STOCK.—*While Co. intends to increase smelting capacity in West, not believed new stock will be issued for purpose before last of year. Earnings 1912 exceeded 1911. Stock has book valuation of $125 a share, at which price a large block was taken over by Amalgamated Copper interests.

International Silver.—ANNUAL REPORT.—*Earnings 1912 were 11.8% on pref., against 16.8 in 1911.

International Steam Pump. — POOR PROSPECTS.—*Although orders Feb. 1 were largest for 3 yrs. and prices 5% over Sept., 1912, severe competition continues and general

impression is that 6% divs. on pref. will be suspended at April meeting.

Kansas City, Mexico & Orient.—FUNDS WANTED.—*English bondholders are having trouble getting funds for reorganization. Intimated foreclosure may result. Receivers are rushing extension Fort Stockton to Alpine, Tex., to connect with So. Pac.

Kresge.—1912 BUSINESS.—*Gross sales of Co.'s chain of dept. stores 1912 increased 30% over 1911; surplus for divs. incr. 60%; bal. for com. stk. was about 10.6%. Working capital $1,800,000, or $90 a share on pref. stk. Good will is carried at $4,376,000, furniture and fixtures $1,221,000.

Lehigh Coal & Navigation.—ANNUAL REPORT.—*After expenses, taxes, interest and depreciation, Co. earned 8.6 on stock in 1912, against 10.2 in 1911. Gross increased $128,000 but expenses incr. $453,000. Total coal mined 3,616,000 tons, against 4,001,000 previous yr. (Controlled by Lehigh Valley.)

Long Island.—ANNUAL REPORT.—*1912 operations showed material improvement. A close supervision of operating costs enabled Co. to reduce operating deficit by over $175,000. Co.'s rehabilitation and construction program has been carried to a point where greater economy is possible. There was a substantial gain in both freight and passenger business, but the road still has many problems to solve. Construction work probably completed by Jan. 1, 1915. (Controlled by Penna. R. R.)

Loose-Wiles Biscuit.—OPERATIONS.—*Cost of new factory on Long Island will be deducted from current yr.'s profits. Now operating 8 plants at prominent shipping points Boston to Kansas City and Dallas.

Louisville & Nashville.—SMALLER EARNINGS.—*Net profits have been reduced so far this fiscal yr. by heavier appropriations for maintenance, double tracking, grade reductions, realignment, etc. Extensive improvements are planned for the Eastern Ky. coal fields. Predicted that earnings on stock this fisc. yr. will be about 13% against 16% last yr., capital stock having been incr. from $60,000,000 last yr. to $72,000,000 this yr. There are rumors of another stock issue this yr. Co.'s profit and loss surplus last June was $37,000,000. (Controlled by Atlantic Coast.)

Mackay Companies.—ANNUAL REPORT.—*Mr. Mackay states as usual that income of sub. Cos. is more than needed for divs. of Co. but he neglects to say how much more. Co.'s income from divs. of sub. Cos. and investments was 5.1% on com., practically the same as last yr. Assets $92,366,000, all representing investments, except $353,000 cash.

Mass. Electric.—NOTE ISSUE.—*Issue of $3,500,000 coupon notes authorized, proceeds to be used in part to refund notes maturing July 1, 1913.

Massachusetts Gas.—EARNINGS.—*Surplus for com. div. 7 mos. ended Jan. was at rate of 6¾% yrly. as compared with 4% paid.

Mexican Petroleum.—We did not make clear last mo. that 2% qtrly. divs. are on pref. stock; on com., 1% qtrly.

Minneapolis & St. Louis.—BETTER EARNINGS.—*Surplus this fisc. yr. should wipe out deficits of 1911 and 1910. Turn for the better has helped the stock, though div. on pref. cannot be expected this yr.

Missouri, Kansas & Texas.—PROSPECTS.—*This fisc. yr. net should exceed $1,500,000, after 4% div. on pref. and after wiping out last yr.'s deficit of $504,000. This good showing is helping price of pref. Directors authorized $19,000,000 2-yr. 5% notes, for refunding.

Montgomery Ward.—NEW STOCK.—*Co. sold $5,000,000 7% cum. pref. stk. callable at $115 and accumulated divs. or at $112.50 for sinking fund purposes. Co.'s net quick assets equal $130 a share of pref. Net earnings for 4 yrs. have averaged 5 times div. requirements on this pref. stk.

National Biscuit.—ANNUAL REPORT.—*For yr. ended Jan. 1911, gross was $45,340,000, but 1912 fell below $44,000,000; 1913 rose to over $46,000,000, but net earnings declined $134,909 or less than ½% on com. stock. Increased competition was felt, especially the Loose-Wiles combination, which has in some lines been more resourceful than Nat. Bis. anticipated. However, chief cause of small decline in net was higher cost of raw material.

National Enameling & Stamping.—DEFICIT AFTER DIVS.—*For 18 mos. ended Dec., deficit after pref. divs. was $241,000 compared with surplus of $171,000 for yr. ended June, 1911.

National Lead.—ANNUAL REPORT.—*For yr. ended Dec. balance for com. stock was $786,000, or about 3.8%; com. divs. $619,000; surplus $166,000—increase of $44,000 over preceding yr. Improved business in Jan. and Feb.

New York Air Brake.—ANNUAL REPORT.—*Yr. ended Dec. Co. earned 5.7% on stock against 0.5% previous yr.; working assets $3,228,000; working liabilities $117,000. Pres. Starbuck says, "Co.'s finan. and physical condition was never better; large orders on hand and prosperous business assured."

New York Central.—NEW SHOPS.—*32 acres of land purchased west of Ashtabula for big pressed steel car plant to manufacture equipment for Co. Will employ 7,000 men. Operations to commence at once. Divisible income of Co. in 1912 was $1,424,000 less than in 1911, in spite of about $6,000,000 increase in gross earnings. Operating expenses absorbed practically the entire increase.

New York, New Haven & Hartford.—EARNINGS DECLINING.—*Earnings since Nov. indicate Co. will not fully earn 8% div. At the end of Oct. Co. was $1,600,000 to the good, but in Nov. and Dec. net earnings fell off sharply owning to increased expenses.

New York, Ont. & Western.—EARNINGS.—*For 6 mos. ended Dec. gross earn-

ings gained $269,000 over previous yr.; surplus after charges increased $299,000.

New York Railways.—SIX MONTHS BUSINESS.—*Total income 6 mos., $2,720,000; interest $1,349,000; income available for interest $1,370,000; interest on real estate and funding bonds $325,000; interest on adj. bonds $689,000; net income $355,000; passengers carried 136,744,000.

Norfolk Southern.—BONDED INDEBTEDNESS.—*Sale of $6,000,000 5% bonds makes funded debt $16,362,000 or at rate of only $17,060 per mile on 907 miles of road.

Norfolk & Western.—OPERATION RATIO.—*Jan. proportion of operating expenses to revenue was 61.5% against 70.5% last year. Stock is still under influence of issue in Feb. of $19,000,000 convertible bonds. Evidently a good deal of stock has been sold recently. (Controlled by Penna. R. R.)

Northern Pacific.—NO NEW STOCK.—*Decline in price of stock has been accompanied by rumors of new stock, but these have no basis. Possibility that bonds may be sold but Co. does not appear to need funds at present. Decision of U. S. Supreme Court against Co. on Yakima lands has no direct effect. This land comprises about 297,000 acres, estimated value $3,000,000, but has never been included in Co.'s holdings as shown in report.

Pacific Telephone & Telegraph.—ANNUAL.—*Divs. of $1,715,000 were paid on pref., leaving surplus of 0.7% on $18,000,000 com., against 1% last yr., when pref. divs. were $1,090,000.

Pennsylvania Lines. — ANNUAL REPORT.—*Earning power of Pa. stock really comprises $42,153,000 earned by Pa. Line East plus undistributed surplus of $7,102,000 of Lines West, total equal to 10.8% on Pa. stock. For 1912 gross revenues increased 10.8%, operating expenses 11.8%, net earnings 8.3%, and $8,257,000 more was taken out of revenues for maintenance than in 1911 before arriving at net earnings. Actual cost of transportation was at lower ratio, being 36.1% in 1912, against 36.9% in 1911 in spite of general increase in cost of railroading.

Peoria & Eastern.—INTEREST PAID.—*Directors declared 4% on income bonds. Last yr. this interest was omitted, paid in 1910 and 1911, none in 1909, paid 1902-8. Co. is leased to the C., C., C. & St. L., which owns half of its stock.

Pere Marquette.—*OPERATING RESULTS show improvement under present management, due to better co-operation among departments. 7 mos. ended Jan. transportation expenses decreased $212,000 and train-miles decreased $375,000. Operating expenses, however, increased, due to $356,000 more for maintenance of way and $189,000 more for equipment.

Philadelphia Rapid Transit.—EARNINGS.—*Jan. gross increased $193,000 over last yr. Net increased $128,000. For 7 mos. ended Jan. surplus after charges $283,000, against deficit of $39,000 previous yr.

Pittsburg, Cin., Chic. & St. Louis.—NEW BONDS.—*Ohio Pub. Service Commission orders that $7,000,000 new 4% bonds be not sold below 92. Proceedings are for bonds on sub.-Co. maturing Jan. 1, 1914; new equipment costing $2,682,000, and construction costing $1,315,000. (Controlled by Penna. R. R.)

Pittsburgh & Lake Erie.—*EXTRA DIVIDENDS of 5%, compared with extra 12% in March, 1912, 25% in 1911, and 40% in 1910. Regular divs. are 10% yrly. (Controlled by N. Y. Cent.)

Pittsburg Coal.—ANNUAL REPORT.—*For 1912 surplus above pref. div. was $671,000, an increase of $633,000 over preceding yr. Earned on pref. 7.5%.

Pond Creek Coal Co.—PRODUCTION.—*Management believes that by April 1 property will show sustained mthly. output of 50,000 tons. Production for 1913 about 500,000 tons.

Pressed Steel Car.—SMALL EARNINGS.—*For 1912 Co. earned $80,000 more net than in 1911, showing margin of ¾% for com. after div. on pref., and paid off mortgage of $75,000 on the Allegheny plant, leaving Co. free from bonds or mortgages, and expended $146,000 for improvements, against $283,000 in 1911. No charges for depreciation in 1911 or 1912. Orders were executed on advancing prices for labor and material and this, with restricted volume of business, reduced earnings.

Procter & Gamble.—PROFIT SHARING.—*Co. announces that divs. on profit-sharing stock will be raised. Distribution of 16% to 24% yrly. will be made on $1,250,000 stock. Over $1,000,000 has been paid on profit-sharing stock in last 20 yrs. Co. was one of the first to adopt this plan.

Railway Steel-Spring.—ANNUAL REPORT.—*Gross earnings for 1912 were 50% over 1911. Surplus after pref. divs. was 5¼% on com., against 0.3% for 1911 and 6% for 1910.

Reading.—SPLENDID SHOWING.—*For 7 mos. ended Jan. surplus of all Cos. increased 100%, providing full yrs. div. requirements with margin of $3,600,000 to spare. Full yr. may show 19% earned on com. stock.

Republic Iron & Steel.—EARNINGS.—*Expected that for yr. ending June next balance for com. stock will be close to 10%, after 7% on pref. Believed that back divs. of 5¼% on pref. will be paid off this yr.

Republic Railway & Light.—RESULTS FOR 1912.—*Yr. ended Dec. earnings on com. were 3.5%, after 6% on pref., against 1.8% last yr. for com.

Rumley, M.—FINANCING.—*Directors authorized $10,000,000 2-yr. 6% notes convertible into com. stock from Sept. 1, 1913,

to Dec. 1, 1914. Including new cash, Co. will have net assets of $30,000,000 and net quick assets of $20,000,000 or twice the note issue. Com. stock will be increased from $12,000,000 to $22,000,000.

Seaboard Air Line.—SALE OF NOTES. —*$6,000,000 3-yr. 5% notes cover refunding of $2,400,000 obligations and $3,600,000 additions and betterments. Expected to fill financial requirements for 2 yrs. Double track, terminal and yard facilities will be constructed at rate of $150,000 mo.

Sears, Roebuck.—BIG PUBLISHING CONTRACT.—*Largest contract for single volume of fiction in history of publishing has been closed with Harper Bros., 1,000,000 copies of "Ben Hur." S. R. & Co. have 2nd or 3rd largest printing establishment in U. S.

Sloss - Sheffield.—FAIR BUSINESS.— *Understood that fisc. yr. ended Nov. showed fair surplus after pref. divs. Would have been larger if Dec. were included. No probability of com. divs., as management will make improvements out of earnings this yr.

St. Louis & San Francisco.—EARNINGS & MAINTENANCE.—*For 7 mths. ended Jan. operating revenue gained 10%, with further gain in Feb. The open winter has permitted continued heavy maintenance work; way and structures 11% over last yr., equipment 7% more.

St. Louis Southwestern.—PROSPECTS. —*For yr. ending June next, probable earnings about $1,300,000 over last yr., with balance of 6% for com. In 6 mo's ended Dec. Co. earned 5.2% on com. after half yr's. pref. divs. Half the increase in gross was put back into property by increased maintenance.

Studebaker.—SATISFACTORY PROGRESS.—*Earned 5% on com. in 1912. Gross sales about $35,000,000 and $50,000,000 expected in 1913. Co. has become one of 5 major auto Cos. It has $20,000,000 net quick assets and $1,400,000 floating debt, with $7,600,000 5% notes.

Tennessee Copper.—NEW PLANS.— *Philips management desires to undertake big construction work, of $3,000,000 or $4,000,000. Co. has but a few yrs. more ore of the grade that has been treated, estimated 3 to 6 yrs. The only future supply is the Eureka Mine, with ore averaging only ¾% copper and high in sulphur and iron. However, past ores have contained 40% iron, which has been dumped as slag, and management desires to erect a new plant to treat both low grade ores and the old slag, building iron furnaces and securing coal and coke supplies.

Texas Pacific Land Trust.—SALES FOR 1912.—*Total receipts $553,000, expenses $529,000. During the yr. 18,484 acres were sold for $94,240.

Texas Pacific.—VARIOUS MISFORTUNES.—*Management is contending with loss of traffic in cotton, Cal. fruits and Miss. floods. In 6 weeks gross earnings have decreased $130,000 compared with 1912. Management will ask Congress for permission to rearrange funded debt.

Third Avenue.—ANNUAL REPORT.— *Surplus after charges $1,718,000. Out of this, $400,000 was written off for depreciation, leaving $1,318,000. It would require $1,126,000 to pay full interest on 5% income bonds, leaving less than $200,000 for $16,950,000 stock outstanding, or about 1%. Future possibilities for stock lie chiefly in further development of traffic in the Bronx.

Tobacco Products.—PREFERRED DIVIDEND.—*Divs. on Melachrino Co. alone will nearly meet 1st div. on Tob. Prod. $10,000,000 7% pref., without touching earnings of the other 4 operating Cos. Sales of the 5 Cos. for Feb. showed gain of 20% over 1912.

Toledo Traction, Light & Power.—COMPANY REORGANIZED.—*Incorporated under Maine laws as reorganization of Toledo Railway and Light. Capitalization $8,000,000 6% pref. and $9,200,000 com.

Underwood Typewriter.—ANNUAL REPORT.—*For 1912 earnings 16.3% for com.; div. 5.4%. Charter provides for $1,000,000 reserve before divs. are increased; reserves now $431,000, and surplus over com. divs. for 1912 $930,000. At book value net assets have increased $1,000,000 in 1912 and assets behind com. stock are $34.88 a share against $22.61 a yr. ago. Sales of machines increased 28% over 1911; output now 500 machines daily with demand increasing.

Union Bag & Paper.—STOCKHOLDERS BRING SUIT.—*21 large stockholders have filed bill in Court of Chancery alleging incompetency and mismanagement by directors and officers through inside contracts. Object is to take management out of hands of present officers and directors until stockholders can reorganize.

Union Switch & Signal.—ANNUAL REPORT.—*For 1912 surplus on stock was 20.3% against 18.6% for 1911. Profit and loss surplus Dec. 31 $1,720,000.

United Dry Goods.—CURB BUSINESS. —*Income 6 mths. ended Jan. 15 was 4.9% on com. stock after full div. of 3½% on pref. This compares with 4.8% for same period last yr. and 6.2% 2 yrs. ago. Com. divs. are 8% yrly. and margin of safety since organization has been 30%. Co. controls Associated Merchants Co., which in turn controls H. B. Claflin Co. Uni. Dry Goods also owns 4 large retail stores and majority of securities of Lord & Taylor.

United Fruit.—DIVIDEND PROSPECTS.—†Business of fruit department better than last yr. but sugar earnings for 1913 will probably decline, owing to low prices.

There is therefore some question whether management will declare any extra divs. this yr.

United Railways of St. Louis.—JANUARY RESULTS.—*Gain in gross 7%, but loss in net was 7.4% compared with last yr., and loss in surplus 21.4%. Operating expenses increased 12.1%, depreciation 28.2%.

Union Typewriter.—CONSOLIDATION.—*Pres. Earle estimates falling off in earnings during 1912, probably owing to greater competition. Remington, Smith Premier and Monarch sales forces have been consolidated into a new organization. Net quick assets when last reported were over $9,000,000, or more than note and first pref. stock issues combined. Minority stockholders are requesting representation on board of directors and 4% divs. on com.

U. S. Industrial Alcohol.—CURRENT BUSINESS.—*Gross sales for 1912 increased 20%, and have held their own since Jan. 1. Pres. Harrison holds out no hopes regarding com. divs. (Controlled by Distillers.)

U. S. Rubber.—GOOD BOOT AND SHOE BUSINESS.—*Fisc. yr. ended March showed large gain. Boot and shoe sales for calendar yr. 1912 were 33% over 1911, in spite of mild weather. Rubber tire business fell off $600,000 in 1912 owing to trade war. Rumors of increase in com. stock div. not generally believed, as policy of directors has been to use surplus of sub-Cos. for improvements and additions.

U. S. Steel.—PROSPECTS.—†Steel business is holding up remarkably well, decline in unfilled orders being trifling, but margin of profit, while better than last 2 yrs., is low compared with previous yrs., owing to higher expenses and taxes and lower prices on sales. With prospects of tariff reduction, higher prices for steel products are not expected. Government suit is doubtful factor. If radical dissolution is ordered results might be different from previous trust dissolutions, as Steel shares are scattered among over 100,000 holders.—*Co. has about $75,000,000 cash on hand, largest in history. Earnings for first quarter 1913, probably about $38,000,000, which would be new high record for first quarter, with the exception of 1907.

Virginia-Carolina Chemical.—BUSINESS PROSPECTS.—*No apparent reason why 3% div. on com. should not be maintained. Weather conditions favorable, some increase in cotton acreage, and fertilizer prices well maintained. Balance of 6% for com. is probable, against 3.2% in 1912 and 3.1% in 1911.

Virginia Railway & Power.—IMPROVED EARNINGS.—*For 7 mths. ended Jan. balance for com. was at rate of 5.6%, against 3.3% for yr. ended June, 1912.

Vulcan Detinning. — ORDERS ON HAND.—*Production sold ahead to July. New Sewaren plant now in full operation. Electrolytic plant, destroyed by fire, will be rebuilt by April 1.

Wabash-Pittsburg Terminal. — REORGANIZATION.—*New plan is on the basis of consolidating Wheeling & Lake Erie, Wab.-Pitts., and West Side Belt. Good management would require large expenditures for betterments. The 2 protective committees and minority stockholders will co-operate with any practical working plan.

Wabash.—REORGANIZATION.—*Committee is working on plans but refuses to give particulars. Plan as previously outlined involved assessment of 40% on both classes of stock, and holders of 4% bonds were to receive 50% in cash and 50% new pref. stock in exchange. Co.'s gross gain 8 mos. about 11.6% over last yr.

Western Maryland.—STEADY PROGRESS.—*Co. is getting in better shape to handle business. Open winter has helped construction work and management believes it will be completed by June 1. Pittsburg & Lake Erie is now waiting on Western Md.'s ability to handle business on competitive basis with other lines.

Western Electric.—BUSINESS POLICIES.—§Vice-Pres. Swope says, "With increasing use of telephone and other things electrical, our opportunity is constantly broadening. Our plan is to develop best forms of apparatus, manufacture at low cost, and sell on basis of quality and price. Quality must be emphasized to get our share of the business." (Controlled by Am. Tel. & Tel.)

Western Pacific. — OBJECTION TO HARRIMAN DISSOLUTION.—*Dissolution agreement would give Cent. Pac. in So. Pac. territory and So. Pac. in Cent. Pac. territory, direct access as if an owner by means of their own locomotives and cars to industry and commercial tracks of the owning company in all cities touched, covering almost every city and town of importance in central Cal. The result would be practical exclusion of West. Pac. from business commanded by these tracks, although under the law West. Pac. and all lines similarly situated have right to get busines from such tracks and to require switching to be done by the proprietary line on reasonable terms. West. Pac. has as yet very few feeders and is dependent on its rights under the law for a large part of its traffic. It asks that U. P. and S. P. be placed on an equality with it in use of these shipping facilities. Provision in regard to Benicia cut-off is that no other Co. shall use the cut-off without written consent of both So. Pac. and Cent. Pac. This would prevent So. Pac. from voluntarily admitting West. Pac. to the cut-off without consent of U. Pac. (Controlled by D. & R. G.)

Westinghouse Air Brake.—STOCK DIVIDEND.—*Co. declared the regular div. of

2%, extra of 2%, and 5% stock div. This makes total outstanding stock $19,239,000.

Westinghouse Electric. — *UNFILLED ORDERS Jan. 31 were $11,612,000, or $3,500,000 more than 10 months previous. Net for current fisc. yr. should exceed last yr.'s record of over 6%.

Woolworth, F. W.—ANNUAL REPORT.—*For 1912 balance for com. was 8.7%. As only two divs. of 1% each were paid in 1912, surplus at close of yr. was $3,364,000. Gross increased $7,941,000 but net gained only $459,000, due largely to expenditures in opening 50 new stores, making total number 643. Com. is now on 4% basis.

Mining Stocks

This section of the Investment Digest includes some of the more important properties, in regard to which authentic and trustworthy information has appeared during the month.

Amalgamated-Anaconda.—*Amalgamated $12,500,000 5% two-yr. notes are nearly all sold. Amal. has $12,500,000 5% two-yr. notes maturing April 1 next. The notes were issued to pay for the $5,000,000 capital stock of the United Metals Selling Co. at $246 per share. A previous note issue, for $5,000,000 was liquidated several yrs. ago. A yr. ago Amal. had cash and cash assets totaling $15,600,000, of which $9,100,000 was cash in bank, and the balance due for copper delivered, and from smelting and mining Cos. Against this were accounts payable of $5,014,000, representing sums due to mining Cos. and for freight, taxes and interest. Anaconda has effected a saving of $2,750,000 per an. in the cost of electric power consolidations and development in Montana. Except for improved machinery and increased efficiency the Anaconda mine would now be considered exhausted below the 2000-foot level. Under present processes, however, Co. has an almost indefinite life, into which $30,000,000 cash has been poured, so that ten big power dams are now operated in 25 cities and towns. Power to the Anaconda smelter is transmitted 165 miles, and the same Co. will provide power for 450 miles of the St. Paul as soon as the road can spend $10,000,000 in electrical equipment. Probably no change in either Co.'s div. unless there is a decided improvement in the price of copper.

Arizona Copper.—*The report for last fisc. yr. is one of the most successful periods from every point of view that this Co. has had during the 28 yrs. it has been in successful operation. During yr. the property produced approximately 36,150,000 lbs. of copper, with a net profit of $2,403,875, after allowing $125,000 interest on $2,500,000 5% debenture bonds, compared with a production of 34,584,000 lbs. of copper the previous yr., and net profits of $1,311,700 after allowing for same amount on the 5% debentures outstanding. The usual 7% was paid on the $1,582,650 pref. shares, and $1,234,915 in dividends on the 1,519,896 shares of com. stock as compared with $948,835 for 1911.

Braden Copper. — *Co. contemplates doubling of mill capacity from 3,000 to 6,000 tons of ore daily. Co. produced 1,600,000 lbs. of copper in concentrates during Feb. The Mineral Separation plant is expected eventually to return 85% recovery, at least such was promised by owners of this process.

Calumet & Hecla.—*Co. declared a quarterly div. $10 per share. 3 mos. ago $12 was declared, a yr. ago $8. Div. is payable Mar. 20, to stock of record Feb. 21. With payment just declared, stockholders will have received $121,050,000 in divs. since formation of Co.

Chino Copper.—*Production for the quarter made a new record, 11,067,864 lbs. against 10,608,478 for the 3rd quarter; 4,289,644 for the second, and 3,271,980 for the first. The recovery of 64.58% was slightly lower than in the previous quarter, 65.15%, but the ore of the last quarter averaged 1.84%, against 2.33% for the previous quarter, the milling efficiency was really decidedly greater. Operations of the Co. since the close of the yr. as noted in our last week's letter, already shows a decided improvement over the last quarter.

Granby.—*Stockholders have authorized issue of $5,000,000 6% conv. bonds, and increase in capital stock from $15,000,000 to $20,000,000. Bonds secured by mortgage on all of Co.'s mining and smelting properties, and conv. into stock at not less than par. Proceeds of issue will be used for construction and development work at Hidden Creek properties. Already $1,325,000 has been spent in this direction, while current yr.'s expenditures for similar purposes are estimated at $1,620,000. Co. should never let

its cash get below $1,500,000 when operating both mines. Co. now has no debts, and has about $1,000,000 cash. Pres. Nichols says that he had never sold a share of Granby, and, furthermore, intended to take up his allotment of bonds.

Goldfield Con.—*Improvement in earnings, permitted resumption of divs. at the rate of 30c. quarterly, after payments for one-quarter were omitted in pursuance of determination to keep cash reserves up to $1,000,000. Dec. and Jan. showed over preceding mos. $850,000, practically doubling cash reserve. Div. is not payable until April 30, so cash will be further strengthened, by earnings of Feb., March and April. Increased earnings due to treatment of a better grade of ore. It takes about $4,300,000 per yr. to pay divs. at rate of $1.20 per an., which is the rate of earnings shown for Jan. Preliminary official estimates of results for Feb. show net $348,000.

Homestake.—*An increase in capital stock from $22,000,000 to $25,116,000 was authorized, which practically means declaration of a stock div. of 15%, payable March 25 to stock of record March 10. Directors meet about Feb. 25 to take action on divs. Report for yr. ended Dec. 31 showed total income of $6,790,897 and surplus of $2,267,888, equal to 10.38% on the $21,840,000 stock. Divs. totaled $1,310,400. Co. recently increased its monthly div. from 50c. to 65c. a share.

La Rose.—*Co. declared a quarterly div. of 2½% and 2½% extra, payable April 20 to stock of record April 1. Books close March 31 and reopen April 20. This is the same as declared last quarter. Co. in Feb. produced 230,102 ozs. of silver having a value of $136,182. Other income $2,330; total income $138,512. After deducting $57,409 for marketirg, etc., there remained a balance of $81,103. The end of the mo. showed as follows: Cash on hand $1,425,836; outstanding shipments $184,032; ore ready for shipment $78,017; total $1,678,885.

McKinley-Darragh.—*Co. declared the regular quarterly div. of 3% and an extra div. of 7%, payable April 1 to holders of record March 14.

Nipissing.—*The forthcoming annual report will be a favorable one. Production in 1912 was about the same as 1911, but value was about $300,000 greater last yr. by reason of higher prices obtained for silver, 8c. an ounce more than received in 1911. Co. declared regular quarterly dividend of 5% and 2¼% extra, payable April 21; books close March 31, reopen April 18. Cash on hand March 8, was $1,202,257, against $1,197,000 on Dec. 7 last.

Old Dominion.—*Directors of the Copper Mining & Smelting Co. of N. J. have declared a quarterly div. of $1.25 a share, the same as 3 mos. ago. A yr. ago $1 was declared. The Old Dominion Co. of Maine, the holding Co., receives $194,056 through its ownership of 155,245 out of 162,000 shares outstanding, equivalent to about 65c. a share on 293,245 shares of the holding Co. Div. is payable April 7 to stock of record March 19. Books close from March 20 to 27 inclusive.

Quincy Mining.—*In the quarter ended Dec. 31 last the Co. showed profits of about $280,000, out of which a div. of $1.50 a share was paid, calling for $165,000, which left a balance of $115,000 credited to surplus account. The net earnings for last quarter of 1912 were equivalent to over $2.50 a share. The Co. is exceptionally strong at the present time as result of addition of about $239,000 to surplus account during the past yr., after payment of $150,000 to the St. Mary's Mineral Land Co. for land, and div. disbursements of $550,000—$5 a share.

Ray Con.—*For mo. of Jan. Co. produced slightly under 4,000,000 lbs. at a cost of 9c. a lb. Ray has reached a productive basis of nearly 50,000,000 lbs. a year., consequently, on 15c. copper, it may be said to be earning today approximately $1.90 per share, or over 11% of the present selling price of the stock. A better average grade of ore is being treated, which means higher recovery and, unquestionably, a lower cost per lb.

Utah Copper-Nevada Consol.—*QUARTERLY REPORT of Utah for 3 mos. to Dec. 31, 1912, shows total income of $1,102,452, against $2,157,764 for corresponding period of 1911. Divs. $1,184,700 were paid during the quarter, leaving a deficit of $82,248, against a surplus of $980,753 in 1911. The yr.'s income is equal to $5.35 per share compared with $3.96 the previous yr. Divs. aggregating $4,729,747 were paid or declared after which there was a surplus of $3,719,526. The conditions of Nevada Consol. during last quarter of 1912 were similar to Utah Copper. In spite of these, the receipts were within $43,000 of div. requirements and is very satisfactory. This Co. at end of yr. had quick assets amounting to $4,114,000, against current liabilities of about $900,000, or a net working capital of $3,200,000. This alone is equivalent to about $1.50 per share.

Yukon Gold.—*Annual report for 1912 shows total production valued at $4,863,448 at a cost of $2,142,028, leaving operating profit $2,721,419. From this was deducted $692,925 royalties, $577,146 for depreciation and $378,685 for int. and general expenses, leaving surplus $1,072,592. After deducting $1,050,000 divs. (30 cents a share) the final surplus for the yr. was $22,592. General bal. sheet shows $97,351 cash on hand, and surplus $409,276. The report says that operations during the yr. showed a gain in every dept. and the outlook for 1913 is for still further improvement.

TRADERS' DEPARTMENT

SPECULATION: Operations wherein intelligent foresight is employed for the purpose of deriving a profit from price changes.

Notes on Office Trading

X—The Study of Individual Stocks

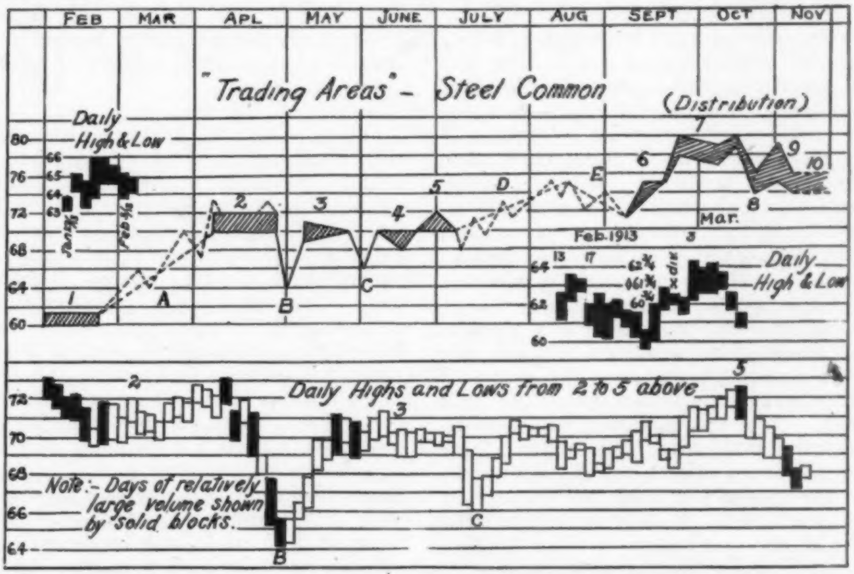
THE market being nothing more than the casual aggregate of the separate stocks composing it, the trader needs to be acquainted with the history and present relative position of a good many representative stocks of all kinds in order to have a statistical basis for being bullish or bearish on the trading situation. This is the technical corroboration of the general ideas derived from observation of the trading temper and similar points of view, some of which were discussed in the last Note. Furthermore, it is necessary to compare the positions of such stocks as are suitable for trading purposes for the sake of selecting that one which, all things considered, is the best at the moment.

I would be the last to belittle the value of "average" figures and arguments—in their proper place—but *I must study the component parts of an average before I should allow myself to be influenced by it.* The trader's object is to profit from swings of the intermediate sort, sometimes extending only to a few points, and quite frequently not including all of the active trading stocks. Unless he have a clear view of the comparative possibilities of the separate stocks in these respects he will oftentimes fail to get aboard promptly enough, and still more frequently will he fail to pick out the best stock or stocks for his purpose.

Suppose, for the sake of argument, that there did exist that mythical and omnipotent being, the Master Manipulator. In the course of his manipulations he would naturally employ, for his tactical operations, such stocks as were in a position that the move would suit his ulterior objects. For example, stocks A and B are really (i. e., in the private mind and intention of the M. M. aforesaid), on the down grade, while he has not yet got through distributing stocks C and D. A drive is engineered, led by A and B, and participated in by C and D, but to a less extent. The succeeding rally will very possibly leave stocks A and B below the previous levels, but stocks C and D fully up, or perhaps a little higher than before. All four stocks are active leaders, but the final result has been to produce an actual downward swing in A and B with only a reaction in C and D, followed, perhaps, by an actual upswing in C and D, but only a rally in A and B. At any instant, out of, say, five or six stocks that are otherwise suitable for trading purposes, there will be one, or possibly two, that, taking everything into consideration, are "best bets."

Comparatively few stocks are in all respects suitable for the office trader's purposes. Special stocks may be good from time to time for a limited period, but the office trader needs a medium which shall be available at all times. Every stock has its own peculiarities, and life is too short to allow the trader to become intimate enough with more than a few.

The choice is limited from a technical point of view especially in two ways. Trading, as I see it, is a process involving very numerous decisions and very numerous changes of opinion. The first requirement, therefore, is that a trade shall be executed within a very small fraction of the going quotation; in other words, that there shall be a close market for the stock. In order that the trade may be closed with equal facility, and especially that a stop-loss order may be certainly executed close to the stop price, it is necessary that there shall be a close and also a continuously active market in the stock.



The other limitation is due to the fact that only one or two stocks, otherwise suitable, are likely to find themselves in a suitable technical position at any given moment. Moreover, the indications afforded by the records of a stock's action are plainly discernible, sometimes—and sometimes very much the reverse.

Union, Steel and Reading are types of stocks that answer the above requirements in these days, and I myself am constantly ringing the changes on these three and hardly ever touch anything else. The best reason of all, probably, is that these stocks have a large following of active traders at all times, and in consequence behave, usually, in normal fashion. Study and observation of their behavior under various conditions will give an experienced trader a basis for forming his trading judgment to an extent that is not the case in any other stocks.

* * *

We come now to the study of the individual stocks. A very few words must suffice regarding the broader aspects of this subject. As I write I have before me a number of my daily high, low and volume charts extending from December, 1910, to date. The first thing to notice is that there was only one point at which all stocks, practically, acted together. In October, 1911, about everything made bottoms—Steel 50, Reading 134, Union 154, etc. A general rise ensued and a relatively high price level was fairly well maintained till last fall, when the market began to sag off, and a distinct general slump occurred early in December. In the interim the three "big leaders" had reached their high levels as follows: Union, 178 in November, 1911, 176 in April, 1912, 177 in October; Reading, 179 in May, 1912, and 178 in October; Steel sold around 80 at the end of September.

Steel has been declining since September 30, Reading since October 15, and Union since November 7. At the low prices of February 24, last, Union was 26 points down, Reading 25 points and Steel 20 points. A similar state of things will be noted in regard to most of the other active stocks.

The deduction to be made from "broad gauge" studies of this sort, in so far as it affects an office trader, is based on the fact that when prices reach previous accumulation or distribution levels it arrests the attention of a large class of "speculative investors." For example, after the low prices of October, 1911, there were distinct accumulation areas in Steel around and below 60, in Union around 160, Reading below 140, and again below 155. Other stocks show similarly. The natural inference is that if a substantial rise is practicable it might easily start from around such levels. It would be only elementary manipulative tactics to start prices up before any large number of real bargains had been picked up by the wrong people!

* * *

Under normal conditions, every change of price level is the sequel of a previous accumulation or distribution, which has been accomplished during the course of fluctuations around some particular price level. The accompanying diagram illustrates this point. The shaded areas are the places where stock changes hands, or an attempt was made to effect such a change. It is to be remembered that during the continuance of these "trading areas" it is not possible to *know* whether the attempt has been successful or not. That will be disclosed more or less clearly by the direction taken by the next swing, and by the action of the stock relative to the action of other stocks. For example, previous to Area 1, nothing had occurred to show that the enormous amount of Steel that "somebody" had gathered in around 50 and below 60 had been disposed of. When the price finally came to a practical standstill at 60 in the middle of February the odds were at least two to one that the next ten or fifteen points would be up. Area 2, on the other hand, bore all the earmarks of real liquidation *at the time*. That it was not so was proved by the course of action of the "shake-out" marked B. See the details given on the diagram. The general deduction to be made was that it had been found impossible to unload much (or enough), Steel around 70. This was confirmed by the fact that the eleven weeks' decline in Reading (April 29 to July 10) found Steel merely marking time around 70. The distribution areas marked 6 to 10 are recent history.

* * *

The two little block charts show the daily details of Steel at the last intermediate top, made at the end of January, and the low of February 24. Incidentally they show the precise form in which my high-low-and-volume charts are kept, and how the "ex-div." is managed. Comparison with corresponding features of the complete daily chart will disclose the significance of a point illustrated in these two little charts—almost the only *direct* trading hint that can be got from a chart, in my experience. This point is, that a horizontal, square-topped area shown after a rise, is frequently followed by a reaction of some kind. For example, the areas shown between 66 and 64½, and between 61½ and 63, mean local distribution. It is very much more than an even guess that a reaction will ensue before any further advance. In the two cases illustrated a short sale with stop at 66¼ or 66½, and with stop at 63¼ or 63½, respectively, were suggested simply by the chart formations. B.

(*To be continued.*)

A Sermonette

When a Stop Order is Better Than a Fifty Point Margin

THIS is none of your imaginary yarns. To use plain English, it's the bloomin' blawsted truth.

Two of my clients bought Beet Sugar around 76. One of them is a man who usually buys a stock when he thinks it's right, then averages if it goes against him. Sometimes he will average through an advance or decline of fifty points, but in this Beet Sugar deal he put a two point stop on "in case of trouble." Luckily for him this was one of the times when he didn't sit tight.

When his stop order was caught he flopped around on the short side, and on the first good break made more than he had lost on his long stock. Had he followed his usual course he might now have an average loss of twenty points on ten or fifteen times the number of shares he originally purchased. As it turned out, the placing of the stop order was the decisive action that enabled him to turn a loss into a profit.

The other client didn't use a stop. He bought with the idea that Beet Sugar was a cheap 5 per cent. stock and he was willing to margin it fifty points if necessary. When the dividend was cut there was no chance for him to get out, so he looked for a place to average. Around 50 he thought the right time had come. He bought his second lot, only to be scared out of the whole business at 38.

He could have paid for both purchases in full had he wished, as there was plenty of money in his bank account, and there was no necessity for him to sell. This again illustrates the claim that it isn't always lack of margin that forces people out. It's the fear of what might come, or the unpleasant prospect of carrying a dead horse for several years.

The main point is the advantage of deciding *when you make the trade* how far you will carry it if it goes wrong. Failure to come to this decision *at that time* usually ends in delay in the hope of a recovery; postponement opens the way to a big loss no matter how much margin you have up.

You don't have to go very far back into stock market history to find numerous examples of these fifty point breaks. Recent experiences among holders of stocks like Goodrich, Canadian Pacific and others show how absurd it is to consider big margin a "protection" against loss.

The ideal way to guard against a heavy loss is to be invariably right. As this is impossible, a stop order is the next best thing.

To modify an old saying, "Be sure you are right, then"—use a stop order.

For you *may* be right when the trade is made and wrong two minutes afterward—the situation changes in a twinkling.

The Turn of the Trend

How the Trader May "Sense" the Coming Change

By THOMAS F. LAWRENCE

BROADLY speaking, if one can *know the trend* and have courage and capital to follow it resolutely he can make money in the stock market. Courage is the outgrowth of confidence, and if *one knows he is right* that is about all there is to it. The question, then, is, "How is one to know?"

Before any constructive studies can be made we must first have some accepted hypothesis on which to begin. In our study of price movements, let this be our hypothesis: Security prices depend upon demand. Demand, in turn, depends upon cash available for investment and speculative purposes. Major movements of stock and bond prices are influenced entirely by money supply, the best single index to this *open to the public* being the ratio of loans to deposits in the New York banks. Minor movements and reactions from the trend also respond to the demand factor, but are influenced more by technical and less by fundamental conditions. Insiders encourage the public to buy stocks at tops of rallies by bidding prices up after reactions cease. They work through the demand factor by alternately encouraging and discouraging the public trading mind.

The straight out-and-out investor needs only to study the major movements of the market, but the semi-investor and the speculator must be able to know when the turning points in the minor movements are at hand, in order to be successful. The latter two classes must be able also to know when that which was supposed to have been merely a reaction becomes a new trend direction. How is one to know this? By noting the elements in the new movement that make it differ from that which preceded. A move of considerable length may have a number of rallies or reactions more or less alike in essential characteristics. When one comes that differs distinctly from the others study these differences carefully. They are illuminating.

What are some of the things we should watch most? Let us not lose sight of the fact that demand controls prices. Demand expresses itself in the price level of securities, in the volume of transactions and in the time required to accomplish a certain breadth of price change. Watch all of these factors closely.

I should not place too much confidence in the import of any one indication of coming change. The real value of an indication lies in its relation to others. A volume indication interests me, a time indicaton confirmng a volume indication commands respectful attention, a certain technical indication such as double or triple tops or bottoms, for instance, in connection with the former two and confirming them, would certainly convince me that time for action had arrived.

Action based on such reason is freed from much of the nerve-destroying strain to which most traders constantly expose themselves. To know is to enjoy mental freedom; to doubt is to live in fear. With a predominance of facts on our side, *and within our knowledge* we feel that we *know,* hence the presence in the mind of that confidence in our own action so essential to successful venture.

* * *

FOR a concrete example of the importance of detecting the different characteristics of succeeding movements let us study the action of the market at the top of the substantial rise of last September and the reaction that followed. Stocks moved up quickly from the middle of the month to the end. How did volumes at the top of this advance compare with volumes at the top of the spring rise cumulating in April? April had a total volume of around 15,960,000 shares, an average of about 600,000 shares daily. During the entire month the average of the twenty rails held within two points of top. At the top of the September rise prices did not hold

up as steadily, although at a higher range, but from September 22 to October 7, 13 trading days, prices held at practically top with a total volume of around 7,700,000 shares, or an average of approximately only 500,000 shares daily. Here was a very plain volume indication of lessening public demand at top figures.

The rise from September 12 to 30 (average of ten leading rails) extended nearly six points and required sixteen trading days to complete. Prices held around top levels for about one week and then began the graceful drop back to middle of September level with time used in downward move almost equal to the hour to that of the preceding up move. Were you bullish at the time of that drop? Certainly the great majority of the trading public was, for the air was full of bull news—record crops, billions of "new wealth," improving business, etc. The writer was not bullish, thanks to his teachers and his studies, but he does not recall coming into personal contact with any one who was not at the time an enthusiastic bull looking for "a big rise after this little healthy reaction."

The public contested the reaction described above and bought well on a scale down. There was no rally to speak of before election day, November 6. That one was sharp enough, but did not go far, and was followed by a quick reaction lasting four days. Sixteen days of alternating rally and reaction of small import followed, then came another sharp break of ten days' duration covering seven points in all. An entire month's time of weak recovery failed to quite regain one-half the ground lost in the ten days' drop. January gave us another sharp drive of three days with long and slow recovery and February so far (Washington's Birthday) has yielded, another which has registered some low record prices for recent year's work. The sharpness of these breaks and the time spent in fruitless effort at recovery are indications that a new major trend has begun. The break after the election day rally was a clear confirmation of the lessening volume indication at the September-October tops, while the dip below lowest point in 1912 made recently is a strong bearish argument.

MR. FRANK H. TUBBS, in an excellent article reviewing the work of the market for the year 1912, remarks the change in the personnel of the public participating in the recent absorption of stocks. He believes that much of the stock sold by insiders within the past few years went to country banks, particularly of the South and West, and is now held by these banks as collateral for loans. The powers directing the destinies of Wall Street have a genuine interest in the welfare of all banks, big and small. Since, as has been shown, these powerful interests control to such a sensitive extent the surplus funds of the banks of the nation, is it to be reasonably supposed that they will allow any action of the market that would seriously jeopardize the stability of these banks or even force them to draw too hurriedly on their surplus, lying with the large New York banks? Would you think it wise to kill the goose that lays the golden egg?

However, this reluctance to subject the lesser banks to panicky conditions does not include any philanthropic regard for the individual holder of the securities in question, nor does it mean intention that he be encouraged to hold on longer than up to the psychological moment for the insider to step up and buy. But it seems quite evident that time is to be allowed between breaks of importance for banks to get their houses in order and sort out the "lame ducks."

* * *

TECHNICAL indications are valuable aids in the formation of one's judgment as to the direction of the elusive trend. Of the many technical indications given by the action of the market itself, few give up as much under careful consideration as do opening and closing prices of the average market. I do not mean by this that study of these features for one or two days will yield much of value; long periods must be considered. Fewer students consider opening prices, indeed many papers do not quote them at all. For the convenience of the greatest number, then, let us look into the closing prices of the *Wall Street Journal's* average of twenty rails for three months in the early and three months in the latter part of the past year, covering

the end and the beginning, respectively, of two distinct and contradictory movements.

February, March and April had 44 days with higher closing prices and 30 days with lower, the ratio for each month being, 9-14, 9-17, 12-13, the first of the coupled figures representing lower and second higher closing days. October, November and December, on the other hand, had 42 days with lower closing prices and 32 with higher, divided as follows, 14-12, 12-11, 16-9. Note that in the spring, after two months with weight decidedly on the up side, the following month, April, showed a tendency towards equalization of the up and down forçes, 13 higher and 12 lower closing days with the greater number of the latter coming in the last half of the month. This marked the end of the spring rise.

Action in the last half of April gave signal to be on the lookout for coming change. Now a signal is no guarantee of action. Watch the market after a signal is given, then if the movement begins in accordance with the indication the time for action is at hand. Action in December showed that the close division between higher and lower closing days during October and November became very much one sided, and at the same time a good start was made in a new trend direction. To date this trend shows further confirmation, but the close division between high and low closing days in January gave reason to believe that a good rally could come any time.

* * *

IN the study of past price movements one is constantly tempted to give too great consideration to that which is merely "hindsight." Dr. A. L. Bower quotes an old college professor as saying one day while demonstrating a problem in geometry, "You want to build a hammer *with the hammer you want to build.*" One is very apt to want to forecast a move by the picture the move itself made *after the move happened.* If thought of this common tendency is kept always in mind during study of past markets fewer false conclusions will result. Properly applied, hindsight produces foresight; do not think it infallible, however.

In closing a thought comes with regard to fundamentals. You purchase a horse because you *want* that particular horse. The owner sells to you because he wants the money more than he wants the horse. Let us suppose that the owner is also a breeder of horses. The price you offer shows the owner a good profit and he sells. He raised the horse from a colt. As a colt it was worth so much, as a yearling, more, now full grown and developed it is at its best and, obviously, the time to sell a horse, or anything else, is when it will bring the most money.

Let us apply this idea to securities. The business of Wall Street is the manufacture and sale of stocks and bonds for profit. Wall Street manufacturers of securities cannot sell their own products to themselves, they must find a market elsewhere. Theirs is the greatest market in the world—the wide, wide world itself, and every man, woman and child in it that produce a dollar's worth of new wealth as a potential purchaser (indirect perhaps) of Wall Street's output. Do you think these manufacturer-merchant princes of the Street are less skilful at selling their wares than the breeder of horses? Do not believe it. As the breeder rears his blooded colts and fillies with watchful intelligence and understanding of their needs, developing their good points and at the proper time sending them into the auction ring, their glossy coats glinting in the bright sunlight to catch the eye of the possible buyer, so does Wall Street groom and embellish its "common and preferred" issues and employ every possible agency to influence the man with idle money to step up and purchase "at the market."

Inside Wall Street sells to the public on the way up, at the top and on the way down. It buys back from the public at the bottom and on the way up and down, but *never at the top.* The outside public does all the buying there, and if a few outsiders sell there's always a crowd waiting to pick up what they unload. An understanding of the methods by which this is accomplished constitutes nearly all there is to learn about Wall street.

Yet anyone who can grasp the underlying broad idea and can develop a taste and capacity for *intensive* study of detail is well started on the way towards practical and profitable results.

Chips From an Old Block

By SCRIBNER BROWNE

LAST month I had a little something to say about the mistakes which result from a wrong conception of the state of the market. Of course every kind of mistake, in the stock market or anywhere else, results from some sort of a wrong or imperfect conception of the facts.

If I were asked what I considered the most troublesome misconceptions of the minds of traders and investors in the stock market, I would list them about as follows:

(1) Misconception of the actual value of the stock you are buying or selling.

(2) Misconception of the relation between the stock market and general business activity throughout the country.

(3) Misconceptions resulting from gullibility in accepting the statements of others or newspaper gossip in regard to prospects for the market or for particular stocks.

(4) Misconceptions owing to some biased condition of the investor's mind, generally caused by his own position in the market.

(5) Misconceptions as to the actual position and behavior of the market, resulting from failure to keep track of prices in a careful and intelligent way.

The writer of "Notes on Office Trading," in this magazine, very wisely emphasized, some months ago, the importance of paying more attention to losses than profits. If the losses can be eliminated or reduced to small limits, the profits will to a great extent take care of themselves.

This rule applies equally when we come to consider the soundness of the investor's judgment. If mistakes and misconceptions can be prevented or can be reduced to a minimum, a reasonably sound judgment will be the inevitable result.

* * *

TAKING up the first topic, misconceptions as to the value of a stock you are interested in, we generally find this mixed with No. (3)—gullibility in accepting others' statements, or news. The fundamental difficulty is nearly always the same—unwillingness to study actual facts and figures on values.

Suppose the item comes out that the Japan Copper Company will increase its dividend at the next declaration, accompanied by the usual details as to the wonderful prosperity of the company. Does the average investor go behind the returns and find out how many pounds of copper the company is producing monthly; what per cent. of copper the ore is yielding; what the prospect is for ore supplies in the future; what the cost of extraction is; what the price of copper is, and then figure out for himself the profits on the stock?

Far from it. He is much more likely to say:

"Black, Smith & Co. control Japan, and I am told that they say it is going very much higher. They are worth umpty-steen millions of dollars."

Quite so. And they did not make that umpty-steen millions by telling everybody to buy Japan when it was at the bottom, and to sell when it was on top.

On the contrary, they are as still as mice when Japan is at low prices. When it begins to go up, they begin to speak favorably of it; and the higher it goes the better the news will be on it. Why not? That's the reason it is high, because the news is good.

How would it do, in a case like this, to look up the earnings on Japan stock for the last half dozen years; see what the price of copper has been during those years and compare with the present price; get out the manuals and investment digests and figure costs of production; then look and see how other copper stocks sell in comparison with dividends and earnings.

After that, you will be in a position to commune with yourself and make up your mind somewhere near what Japan is worth. Then if your figures make it

look low, and you think the general position of the market is favorable for an upward movement, go ahead and buy it and take my blessing with you. But if it looks high, then just stow away your information and opinion in the back of your head, and wait for the stock to come down. It will come, never fear. It will go down as low as you think it ought to be, and then it will go a whole lot lower, unless you are a hopeless pessimist by nature.

Of course, I am assuming that you are away beyond the stage where you would buy Japan because your friend Prendergas, with the accent on the gas, a customers' man of the old-fashioned type—now almost extinct, thank Heaven!—calls you up on the 'phone and tells you that he has it "on the best authority" that Japan will advance five points before declining one. If you were not beyond that stage, you probably would not be reading this magazine.

If you can't get information as to the earnings of a stock, let that stock alone until you can get it. Or at least, if you must speculate in unknown values, wait until the stock goes all to pieces, as Can common did at 25 a little while ago. Then you will at least have the mathematics of fluctuations in your favor, even if values turn out to be against you.

* * *

MISCONCEPTION No. (2), in regard to the relation between the stock market and general business conditions, is one of the hardest for the ordinary investor to rid himself of. To the average man it looks like a mere platitude to say that when business is good, and the various companies represented by securities listed on the Stock Exchange are making good profits, those securities should sell at high prices, and when business is poor and the companies are not making profits, stocks should be low. Yet, like a good many other things which seem obvious at first glance, this is not wholly true.

It is true that any sound investment stock must in the long run be affected by the profits earned by the Company issuing the stock; but the immediate purpose of the investor in buying such a stock is to get a satisfactory interest return on his money. The stock may be paying him five per cent. on its market price, and the dividends may be assured; but if the interest rates on commercial paper or short-term notes rise to a point where he can make his money earn six per cent. by transferring it from stocks into this other channel, it pays him to sell his stocks and buy the commercial paper or notes, regardless of the favorable condition of business.

And it is just when business conditions are good that increased supplies of money will be needed to handle the business, and therefore higher rates of interest will be paid for such money. Consequently stocks are sure to begin declining, and usually to fall to a considerably lower plane, while business conditions are still excellent.

The same thing applies at the other end of the swing. When business gets very dull, idle money accumulates and soon begins to find its way into sound stocks. Hence stocks go up before general business shows any important signs of improvement.

Perhaps all this is an old story to you; but do you act upon it, or do you forget it when everything is booming, including the stock market? It is one thing to know a fact in a general way, and quite another thing to put it into a successful practice.

The idea that business conditions and stock prices will move in harmony is a misconception that you must get rid of, not only theoretically, but also in actual practice.

* * *

MISCONCEPTION No. (4), resulting from the natural bias of the investor's mind, is perhaps the hardest of all to deal with. You get long of stocks because you look for higher prices; but the time is very likely to come when you look for higher prices because you are long of stocks.

I used to know a market letter writer who claimed that it was always just as easy to write a bearish letter as a bullish one, or vice versa. Every week he simply said to the head of the firm, "Do you want a bull letter or a bear letter?"

Then he proceeded to write a convinc-

ing exposition pointing in either direction desired.

This is not so absurd as it may seem. Stock prices are the great index number of investment conditions. At any moment they represent the balancing of bullish and bearish considerations, as measured and weighed in thousands of minds. If you emphasize the bullish conditions, you have a bull market letter. If you dwell on the bearish conditions and minimize the favorable things, you have a bear market letter.

This is just what the investor does who is carrying stocks. When he bought the stocks he was unprejudiced. But after he has carried them for six months, he has got into the habit of looking at the bullish side of the situation. He pooh-poohs the arguments of his bearish friends, and the continued rise of prices seems to justify his judgment.

Is there any way to get rid of this personal bias? Probably not entirely; but my own experience has been that the more I reduce my reasons to definite form, in figures, facts, or diagrams, the less I suffer from my own prejudices.

This is, it seems to me, the real justification for the elaborate set of price-records recommended by Mr. "B" in his "Notes on Office Trading:" for Mr. Selden's very helpful chart of New York Banking Conditions; and for the popularity of the various graphics now being issued by a number of statistical organizations.

All these things serve to give definiteness to the investor's thoughts. They tend to lift his judgment out of that condition of a hazy general guess or feeling which passes for judgment with the majority of people.

It is true enough that some investors let these various graphics become their masters instead of servants. An idea is inherently no more valuable after it has been put into chart form, than it was before—it is merely more accurate and understandable. Hence the investor should not give any more weight to the ideas he can chart than he does to those which do not lend themselves to that form of presentation.

For the active trader in the stock market, or even the genuine investor who is of a highly speculative turn of mind, misconception No. (5), as to the actual position and behavior of the market, is the most important of all. I shall have to postpone the discussion of it to another article.

A Broker's Day

THE broker rose from his *American Brass* bedstead, reached for the *American Telephone*, and instructed the *Western Union* to cable his order to London.

After putting on his *American Woolens*, *Manhattan Shirt* and *Regal Shoes*, he leisurely finished dressing, then went downstairs to his morning repast, consisting of *United Fruit*, *Quaker Oats* and *Swift & Company's* ham cooked on a *Consolidated Gas* stove. His coffee contained *American Sugar* and *Borden's Condensed Milk*.

Lighting a *United Cigar* and putting on his *Kaiser Gloves*, he stepped into his *General Motor* and burned up a lot of *Standard Oil* and gasoline.

In his mail he found letters from the superintendent of his farm stating how much he had paid for an *International Harvester*, a bill for *Crex Carpet*, *American Ice*, and a *U. S. Realty* rent bill.

The market was heavy as *National Lead* and "the day was dark and dreary," so he snapped on the *General Electric* light, lit his *Pipe* and began to *International Pump* for business.

His stenographer, *Allis*, was getting out some letters on an *Underwood*, when a mouse under her chair caused her to lift her *United Dry Goods*, while the broker, he *J. U. S. Rubbered*, in order to admire the *Butterick's Pattern* on her *Lord & Taylor* stocking.

"*Beet* that if you *Can*," piped the office boy.

INQUIRIES

This department is to answer miscellaneous questions in regard to the science of investment, methods of operating, the customs of the markets, etc. Please write questions briefly and, if personal reply is desired enclose stamped and self-addressed envelope. Address INQUIRY DEPARTMENT.

Small Lots.

Please give me some information about the Consolidated Stock Exchange. Is it easier to buy small lots there than on the New York Stock Exchange; also are the commissions less?—H. M.

You cannot get any better executions on small lots of stocks on the Consolidated Stock Exchange than on the New York Stock Exchange. In the active stocks you might get just as good executions, but no better.

Members of the Consolidated Stock Exchange may, if they desire, under the rules of the Exchange, charge only 1/16 commission for lots of fifty shares or more, as against ⅛ on the New York Stock Exchange. In the majority of stocks, this smaller commission is fully counterbalanced by the difficulty of executing orders of fifty or one hundred shares in such a small market. In a few of the most active stocks, such as Steel common, Union Pacific, and Reading, there may be some advantage in the smaller commissions, but taking everything into consideration, we find it more profitable and satisfactory to deal on the larger exchange.

Figuring Bargain Indicator.

J. K.—The last column in "The Bargain Indicator" gives "Earnings Last Fiscal Year on Present Price." We take the balance for dividends applicable on each stock from the last fiscal year given in the table. For most stocks this is now 1912. These earnings are based on par. We then take the current prices given in the next column and figure the present earnings on this price instead of on par. These are the figures given in the last column, and the stocks are arranged in the order of these earnings.

Odd Lots of Inactive Stocks.

Kindly advise if trades can be made in inactive stocks on days when no sales are recorded. For instance: Recently I gave an order to sell an odd lot of Republic Steel at the market. Could not this order have been executed? In case of 100-share lots, the broker would have to find a market for it.

The order was given in person, I explaining to my broker what was wanted. He claims the order was for day only; I thought he understood it was an open order, as I so explained.—E. L.

It is usually possible to buy or sell even inactive stocks at some price at any time, but when no trades are made in 100 share lots, the buyer or seller of an odd lot may suffer some loss in execution, owing to the uncertainty of the market. You can always sell at the bid price if you wish.

In the case of inactive stocks, the odd lot trader generally wishes to wait for the next 100 share quotation before buying or selling. Doubtless for that reason your broker did not execute your order at the market, assuming that you would wish to get a quotation before making the trade. In giving a market order for odd lots of an inactive stock, it is better to instruct your broker whether he is to execute the order at the bid or asked price at the moment, whatever that may be, or wait for the next quotation. This obviates the possibility of any misunderstanding.

From your explanation we could not say whether there was any negligence on the part of your broker or not. It depends entirely on the definiteness of the instructions you gave him.

Ten Stock Averages.

J. T.—Ten stock averages are kept by many investors and the stocks used are generally about as follows: Atchison, Chesapeake & Ohio, St. Paul, Erie, Great Northern preferred, Lehigh Valley, Missouri Pacific, New York Central, Northern Pacific, Pennsylvania, Reading, Southern Pacific, Union Pacific.

The selection of any ten of these stocks scattered over the country answers the purpose. It is desirable not to use very high priced stocks, like Canadian Pacific or Lackawanna, because such stocks have very wide movements and have too much influence on the average. Also it is better to avoid very low priced stocks, because they fluctuate but little.

Buying Stocks by the Season of the Year.

Are there not certain stocks that could be traded in safely, said stocks being affected by the seasons, condition of the crops in their respective zones, etc.?—A. G.

We do not think that any marked success could be made in the buying or selling of stocks according to the season of the year. It is true there are certain seasonal effects. A big grain crop will increase the earnings of the grain carrying railroads in the fall months, and these large earnings are likely to encourage investors to buy this class of stocks in preference to others. A still more important seasonal effect is that of the accumulation of money in the banks in January and February. But it is not possible to lay down any rules as to buying and selling stocks at certain seasons of the year, because there are so many other factors in the situation which are likely to offset these merely seasonal effects. Seasonal

considerations should be weighed in connection with all the elements of the situation.

Gold Auction—London Settlements.

I should like to avail myself of your inquiry department in regard to the following: (1) Briefly, the nature of the weekly auction of gold in London—by whom conducted, in what manner, etc. (2) What is the method of settling or clearing on the London Stock Exchange?—M. J.

The weekly auction of gold at London is not bound by any fixed rules of procedure. When gold arrives, it is the custom of representatives of banking houses in London and other countries to get together and make offers for the gold in accordance with what the various houses and different countries can afford to pay in view of the money rates of general financial situation at the time. Naturally the gold is sold at the best offer.

The London Stock Exchange has a fortnightly "Settlement Day," so-called, the date being appointed twice a month in such a way as to avoid Sundays and holidays. On this day, stocks sold during the fortnight are delivered, arrangements are made to carry stocks over from one settlement day to the next, and differences are paid in cash. In New York settlements are made every day instead of twice a month.

We suggest that you refer to "The Stock Exchange from Within," by R. C. Van Antwerp, recently issued, at $1.60, postpaid. For further discussion of this matter, we refer you to "The Stock Exchange," by F. W. Hirst, editor of the London *Economist,* 82c., postpaid.

Profitable Investment—Financial Education.

I would like to make a very safe and good investment and at the largest profit. Where. how and what rate? How can I get a financial education, and where?—J. G.

We think the best plan would be, in order to get the largest returns from your investment, to wait patiently until a panic in the stock market gives you a chance to buy securities at very low prices. The MAGAZINE OF WALL STREET will doubtless give you some hints as to when this condition arrives.

We also publish "The Trend Letter," in which we give our opinion as to the general trend of the stock market.

We think that the back numbers of THE MAGAZINE OF WALL STREET will give you as much benefit in the way of financial education as you can get anywhere. You will also find a selected list of books on the first page of our financial catalogue which may be of help to you.

Scale Plans.

C. V.—Elaborate scale plans, such as you describe, are of no value. You would have to have a market built to order beforehand to make such a plan work successfully. Your idea in regard to buying New York Central for investment is a sound one, but you could not set any fixed price at which to buy. You would have to buy when the stock seemed to be low compared with its earnings, or in view of the conditions of the money market, etc., and hold for a reasonable profit. The same would apply to any other stock.

Buying Standard Oil—Rates of Interest.

C. S.—You apparently have a misconception of Standard Oil dividends. As your proposed method of procedure would evidently be for the purpose of securing these dividends, bear in mind that when a dividend is paid, the price of the stock is reduced to an amount to correspond with that dividend. You cannot receive a $40 dividend and have the price remain unchanged.

Brokers in New York do not, as a rule, carry Standard Oil on margin. Most of them require one-third of the cost to be paid, and the balance paid in monthly installments amounting to five per cent. a month. However, you may be able to arrange such a purchase through your bank.

Brokers usually charge one-fourth of one per cent., or $25 per hundred shares, for purchasing, and the same rate for selling. If you buy it on margin, you will receive a receipt for the amount deposited with the broker and a written notice from him stating that the purchase has been made for your account. The rate of interest for carrying stocks varies according to the money market. You cannot get the average brokerage house to agree in advance to charge you a certain rate, but you may be able to have some understanding with your broker.

Daily Prices and Sales.

Have you a book of statistics giving the daily fluctuations and daily sales of the principal railroads and industrials covering a period of several years?—W. W.

The statistics you desire are not found in the current investment manuals. It is possible that you might get a file of the *Financial Indicator,* published by The Financial Press, 124 Front street, New York. Otherwise, you would have to consult a file of *Commercial & Financial Chronicle,* which is kept by most brokerage houses, or *Bradstreet's Weekly,* or some of the daily papers, such as *Wall Street Journal, New York Sun, etc.*

Delivery on Short Sale.

I buy 100 shares of Amalgamated Copper at 73, paying in full for it, and receiving the certificate. At 80 I sell 100 shares short. At 85 I deliver the certificate, closing the short sale. Do I make seven points profit, less charges, or come out even, less commission and tax?—J. L.

You make seven points profit, less commission and tax. If you were short at 80, it would make no difference what the price was when you delivered the certificate, as the certificate would close up the sale. In the case you describe, you would simply be buying at 73, selling at 80 and delivering the certificate. The price of 85 would have nothing to do with the trade.

Book Reviews

Railroad Finance; by Frederick A. Cleveland, Ph.D., LL.D., and Fred Wilbur Powell, A.M. Cloth, 463 pp., including index and very comprehensive bibliography. (Appleton.) For sale by Ticker Pub. Co., price $2.70 postpaid.

A book which presents a full and comprehensive statement of the principles and methods of railroad finance; designed for the use of students, investors, and men of affairs. It treats in detail of promotion and underwriting, and of the methods of financing, construction, equipment, operation, maintenance, additions and betterments. Other chapters deal with such subjects as the distribution of surplus, over-capitalization, the organization for financial management, accounting and statistics. The bibliography has been compiled from a wide range of sources and is a valuable feature.

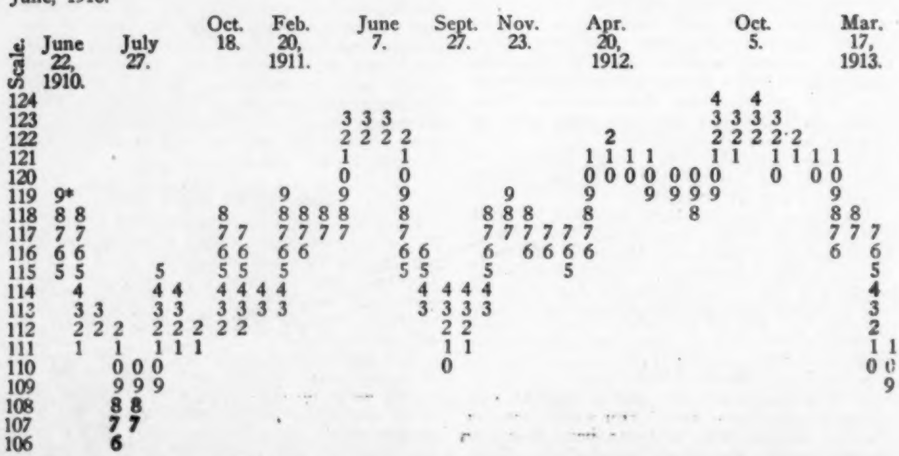
The chapters cover: The Economic Basis for Railroad Investment, Promotion and Underwriting, Capitalization—Original and Supplementary, Finances of Construction, Financing Equipment, Organization for Financial Management, Protection of the Corporate Estate as a Function of Management, Financial Considerations in Maintenance and Additions and Betterments, Some Financial Aspects of Operation, Distribution of Supplies, Accounts and Statistics, Causes of Insolvency, Receivership, Reorganization, Consolidation, Overcapitalization, Bibliography. Written by two authorities on financial matters the book will be of great value to railroad men, capitalists, students of economics, etc.

Readers frequently ask to be referred to responsible brokerage houses. In making such a request, please state what amount you have for investment, or in what sized lots you wish to deal. Also state what large city is located most conveniently to you, or if you have any preference in this regard.

We refer our readers only to such houses as we would consider safe custodians of our own funds, but of course can take no further responsibility.

The Figure Chart

The following figure chart completes the chart on page 108 of the July, 1910, MAGAZINE OF WALL STREET, down to date given below. It is based on the daily average closing bid price of 20 standard railway stocks, and gives a general view of the course of the market since June, 1910.



*In order to condense the chart, only the last figure of each number is given. Thus 9 representing 119, etc.

Essential Statistics Boiled Down

THE figures below give a complete view of the financial and industrial situation, with the best available comparisons for the corresponding month (or nearest month obtainable) in each of the four preceding years.

	Average Money Rate Prime Commercial Paper New York.	Average Money Rate European Banks	Per Cent. Cash to Deposits, New York Clearing-house Banks.	Per Cent. Loans to Deposits, New York Clearing-house Banks.	Per Cent. Cash to Deposits, All National Banks.	Per Cent. Loans to Deposits, All National Banks.	Money in Circulation Per Capita First of Month.
March, 1913	5¾	5	25.6	100.5	.....	.....	$34.56
February, 1913	5	5	25.8	99.0	15.6	102.7	34.71
January, 1913	5	5	26.3	91.1	.....	.....	34.72
March, 1912	4⅛	4	26.1	97.6	16.9*	103.6*	34.53
" 1911	4	3⅛	27.4	97.1	17.1	105.3	34.51
" 1910	4⅝	3⅜	26.1	100.2	16.0†	101.4†	34.87
" 1909	3¾	3¼	25.9	95.9	18.3*	103.6*	34.88

*February. †January.

	New Securities Listed N. Y. Stock Exchange (000 omitted)	Bank Clearings of U. S. (000 omitted)	Bank Clearings of U. S. Excluding N. Y. City. (000 omitted)	Balance of Gold Movements —Imports or Exports. (000 omitted)	Balance of Trade Imps. or Exports (000 omitted)
February, 1913	$60,812	$13,686,563	$5,891,919	....	....
January, 1913	50,929	16,311,078	6,972,337	Ex.$11,027	Ex.$63,969
February, 1912	110,963	12,974,895	5,662,246	Ex. 7,652	Ex. 64,655
" 1911	44,060	12,269,918	4,974,752	Im. 5,381	Ex. 54,262
" 1910	161,282	13,133,952	4,982,812	Im. 125	Im. 5,559
" 1909	201,259	11,260,311	4,372,605	Ex. 5,284	Ex. 7,398

	Bradst's Index of Commodity Pcs.	English Index of Commodity Pcs.	Wholesale Price of Pig Iron.	Produc'n of Iron (Tons.) (000 o'td.)	Price of Copper. (Cents.)	U. S. Production of Copper (Lbs.) (000 o'td.)	U. S St'l Co. Unfill. Tonnage. (000 o'td.)
March, 1913	....	2,717	$16.50	.....	14.9	....	.....
February, 1913	9.47	2,732	16.69	2,586	15.4	131,000	7,657
January, 1913	9.49	2,747	16.88	2,795	16.5	143,000	7,827
March, 1912	8.90	2,667	13.50	2,100*	14.7	116,000*	5,454*
" 1911	8.69	2,536	14.25	1,794*	12.1	109,000*	3,400*
" 1910	9.11	2,396	16.30	2,397*	13.2	112,000*	5,402
" 1909	8.21	2,190	15.05	1,707*	12.3	103.000*	3,542

*February.

	Net Surplus of Idle Cars.	Building Operations, Twenty Cities.	Business Failures. Total Liabilities.	Babson's Average, 10 Leading R. R. Bonds.
March, 1913	......	....	....	95.2
February, 1913	31,381	....	$27,624,614	95.5
January, 1913	37,260	$31,403,534	19,466,551	96.0
March, 1912	13,958*	31,303,094*	18,221,436*	98.2
" 1911	173,667*	27,170,375*	14,193,169*	98.2
" 1910	14,309*	33,716,873*	21,995,034*	99.8
" 1909	300,971*	42,796,000*	15,117,534*	102.0

*February.

The Situation Summarized

[While an attempt is here made to divide the important factors into favorable and unfavorable, this classification is for convenience only. It should be fully recognized that the same factor may have a bullish effect in one direction and bearish in another, or may be bullish in its immediate influence, but containing dangerous possibilities for the future. Also, it would be impossible to strike a balance in this way, as one bullish factor might be so important as to outweigh all bearish considerations, or vice versa.]

Favorable

ABSENCE of overspeculation, in either stocks or commodities, and generally light stocks of goods in dealers' hands in all lines of business, must be counted as an important favorable factor in the present situation, in view of the strained money conditions abroad and our own relatively high rates for this season of the year.

Our apparent credit balance on foreign trade is still very large. This has not prevented Europe from taking gold from this side, but when the Balkan difficulty is straightened out, if no other war-like complications develop abroad, this credit balance should materially strengthen our position in the money markets of the world.

Continued industrial activity in many lines shows that business is fairly hopeful in spite of the many uncertainties before us. Nothing like business depression is visible now.

The new administration has gone to work smoothly and has made a rather favorable impression so far. The president and his advisers are practically unknown quantities, but it is probable that the sense of responsibility will lead them to assume a less radical position than some conservatives have feared.

Abandonment of stock transfer increase by Gov. Sulzer removes one very bearish consideration. The injury to the market would certainly have been serious if this bill had become law.

Winter wheat territory covered by snow and the present condition of the plant is generally excellent. Good crops will be urgently needed this year, as in fact they always are.

Copper position is somewhat firmer, with small decreases in both production and United States visible supplies. The situation in this metal hinges on revival of the European demand, now checked by political anxieties.

Steel orders on hand are still large and productive capacity sold well ahead, although new orders are not coming in as rapidly as last fall.

Railroad earnings continue to show good increases over last year. The open winter has saved the roads a good deal of money. Canadian roads are planning to build about 2,500 miles of new road in 1913.

Unfavorable

THE German financial situation looks ticklish. from this distance. The recent Government loan was not fully subscribed, and the extraordinary war tax proposed has further unsettled the money markets. Berlin is reported to have bid as high as 9 per cent. in New York for money over the April 1 settlements.

Bank of England rate is higher than it has been at this season of the year for ten years past, and proportion of reserves is lowest for 23 years. Hoarding of gold all over Europe and big war expenditures are the principal cause of the financial strain abroad.

Gold exports on a liberal scale, as a result of the foreign strain, have pulled down American reserves. It is hoped that this movement is now over for the present, with the passing of the April settlements abroad.

All U. S. National Banks, in the report of February 4, showed the smallest reserves for this season in ten years.

Money at New York is decidedly firm, commercial paper being again close to 6 per cent and time rates nearly as high. Call money is firm, but not stringent—hardly ever is at this season, and speculation is stagnant.

The special session of Congress will hardly begin real work before the middle of April. The proposed tariff changes are likely to be temporarily unsettling, whatever the final results.

Failure of Harriman dissolution plan owing to the attitude of California State Railroad Commission had a depressing effect. The direct injury to Union Pacific will undoubtedly foot up several millions.

Mexican situation still uncertain and seems likely to continue so.

Clearings outside New York were 16 per cent. less in February than in January. However, this is only a little more than the usual seasonal decrease at this time.

Failures in February showed biggest liabilities for that month in ten years, and larger than any month since January, 1908.

Numerous strikes, most of which result in higher wages, are adding to manufacturing costs at a time when higher selling prices mean smaller sales.

The Market Outlook

Some of the Factors Beneath the Surface of Current Events

By G. C. SELDEN

THE diagram showing the course of railroad stocks, excess deposits and surplus reserves of New York banks (excluding the trust companies) in the clearing house, for the past ten years, is included this month in the article entitled "Investing for Profit," and is therefore not repeated here.

Those who are accustomed to consult this chart monthly will wish to read with special care the chapter of "Investing for Profit," which appears in this issue and the introductory discussion of the same subject which was given last month.

The changes shown by the diagram since last month are not very great. The average of 20 railroad stocks has declined a little further, and the line of excess deposits has again fallen below the zero point, indicating a deficit of deposits under loans amounting to some $10,000,000, after correcting for the seasonal deviation.

In only two years out of the last twelve have the excess deposits been as low at this season as they are now. Those years were 1906 and 1907, during a period of absurd speculative inflation in both the stock market and general business circles.

There is scarcely any similarity between the general situation as it existed in 1906 and 1907, and that of 1913. For example, the total bank clearings of the United States in January, 1906, were actually larger than those of January, 1913, in spite of the big increase in the population and capital of this country during the intervening years. Again, call money rates were around 10 per cent. in January, 1906, and 7 per cent. in January, 1907, while in January, 1913, they averaged about 3 per cent.

How is this adverse banking condition to be interpreted, in view of the fact that it is not accompanied by any sort of inflation or over-extension, either in the security markets, or, apparently, in commodities? What is the cause of the depletion of the supplies of capital which is roughly indicated by the exhaustion of the surplus deposits of New York banks?

* * *

DEPLETION of capital may, of course, result from different causes, and its results may, correspondingly, be different in character and in scope. In 1906 this country was enjoying a "boom," which was to a considerable extent of a speculative character. In January of that year stock transactions on the New York Stock Exchange were about four and one-half times those of January, 1913, and bond transactions were double.

Toward the close of 1906 the railroads of the country were groaning under a burden of traffic that they could not begin to haul with any efficiency or dispatch. Almost every kind of business man was being offered more business than he could handle properly. In other words, boom, over-confidence, speculation, in almost every line.

The result was "tight money." There was not money enough available to go around and handle all this excited business and speculation. Liquidation of securities and a check to business activity was necessary in order to release money and replenish bank reserves. This was quickly, though painfully, accomplished in the panic of 1907. As early as September, 1908, excess deposits were back to the high point of 1904 again, and by August, 1909, almost the entire stock market decline of 1907 had been recovered.

The trouble was quick, sharp, severe, but speedily remedied, because capital had been tied up in forms which could be promptly liquidated.

* * *

WHAT is the situation now? Capital is tied up, not quite to the extent it was in 1906, but seriously. It is not, however, tied up in stocks carried for speculators or in abnormally active general business. Where is it?

It has been, to a greater extent than in 1906 and 1907, actually dissipated—that is, spent in ways which make it temporarily or permanently unproductive. The big war expenses, and the still bigger war preparations, of Europe may be politically necessary, but economically they are absolutely unproductive and useless.

The expenditures of our national Government, States, counties and municipalities have grown constantly more and more extravagant. Enterprises like the Panama Canal, the New York State Barge Canal, extensive appropriations for good roads, the New York City subways, gigantic irrigation plants (as yet only partially in actual use), the wide use of pleasure automobiles, increased public welfare work to both municipalities and corporations, belong in a different class.

Such expenditures are not waste. They may be necessary and are certainly very desirable. But it is an unpleasant economic law that almost all desirable things have to be earned by the honest labor of society. However necessary these enterprises may seem to be, they will all have to be paid for, and they will give little or no immediate

cash return on the immense amounts of capital invested in them.

Again, the present level of commodity prices is almost 25 per cent. higher than the low point of 1908, to say nothing of the still lower prices of years before. This means that everybody who buys and sells these commodities must use 25 per cent. more capital for the purpose than in 1908. And this high plane of price is not speculative. It has resulted from a continued increase for many years in production of gold, and from the increase of our population in proportion to cultivable land.

* * *

THE **rise of real estate values** has also affected supplies of capital. Every transfer of real estate involves more money; but this is only one of the least important results of high prices for land. A recent circular of the National City Bank of New York, in discussing the proposal to add $30,000,000 to appropriations for irrigation in the West, puts one phase of the matter in such clear and conclusive language that it is well worth quoting at some length:

"The cause of this stagnation in agricultural development of the West is easily traced to the inflation of values of raw land, which culminated about 1911. The attraction of the West has been in the opportunity of obtaining free government land by homestead entry, or of cheap land by purchase. The building or even the proposal to build irrigation works has caused prices for raw land to advance from little or nothing, or say from $5 per acre up to $50 or $100 per acre. For a time sales were made at these high prices, but at present such sales are rare. Many of the private enterprises have become bankrupt or are practically insolvent, largely because the lands are not being utilized for the production of crops to an extent sufficient to enable the owners to pay for the works. . . .

"The returns on the investment already made may be measured in thousands of prosperous homes upon the land and in thousands of citizen voters of the most desirable type. The financial returns are also not wholly discouraging in that the investment which has been made is coming back, although not as rapidly as had been anticipated, because of the fact that much of the land which has been reclaimed has advanced in price to a degree that the owners have been tempted to hold it for speculative purposes; that is to say, the man who obtains a forty acre homestead with the intent of cultivating it, has discovered that he can make more money by selling a relinquishment than he can by cultivating the soil. He is at once spoiled as a farmer and becomes an amateur real estate speculator.

"This condition cannot last long. There must be an early return to normal conditions such as will attract homeseekers again to the West through the relatively cheap land and opportunities for profit not only in cultivation of the soil, but in the increased value of the land, due to the extension of agriculture throughout the neighborhood. . . ."

The comparative dullness of city real estate shows us the same condition from another angle. Prices are being held at a high level, but it is almost impossible, in most of our big cities, to make a cash sale of real estate unless there is something exceptionally favorable in its situation or in the way of proposed operations around it.

Farming land is being held very high, in comparison with past prices, but possibly not too high. It is hard to say about that. Growing population means growing demands for food and higher prices for farm products. It is possible that this demand may keep farming land near its present level, even in case of a reaction in general business conditions.

* * *

A **SLOWER but more permanent absorption of capital** is, in a word, what we have seen since 1909, as compared with the period from 1905 to 1907. For this reason I do not look for any panicky decline at present unless something new breaks loose in European politics. The term "readjustment" has been somewhat overworked by those commentators who are really very bearish but don't like to say panic or depression; yet readjustment is probably a fair description of the phase through which we are passing.

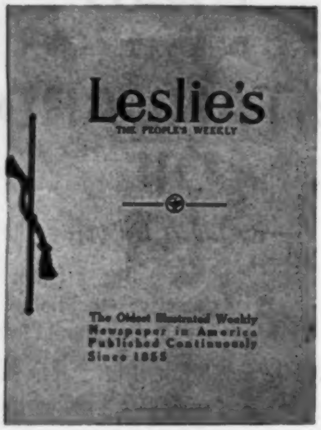
By war expenditures, big public works, and to a lesser extent by private extravagance, the world has mortgaged its income for several years ahead. Higher commodity prices have raised the cost of living. Now we have got to put on the brakes, cut down our expenses and pay up.

This process will, in my opinion, cause a further decline in security markets, but I see no reason why it should not continue to be a decline of the same general character as we have been having since 1909—a slow, dull and dragging market, interrupted now and then by considerable rallies or small bull markets.

Subscribers are writing in to ask, "Do you think a panic is coming?" Different people mean different things by the word panic. The genial Tom Lawson, for example, is writing about "the December Panic," referring to last December. We had a very uncomfortable bear market in July, 1910. Some would call it a panic and some wouldn't.

I don't think, for the reasons outlined above, that we are going to have another 1907, but I look for a considerable period of relatively dull and depressed markets.

It is understood, of course, that the above applies to the investment situation. I am not attempting, in this department, to make any predictions as to immediate speculative movements.



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How to Forecast Business and Investment Conditions

By FRANK CROWELL

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The Magazine of Wall Street. What It Stands For

THIS magazine is now in its sixth year. We have twice increased our reading pages recently, so that the magazine is now 50 per cent. larger.

In our early issues we blocked out for ourselves the field of practical, conservative speculation and investment. These subjects are always inextricably mixed and combined. We consider them together or separately, as occasion arises. So far as practicable, we classify our matter into speculative articles or investment articles, according to their predominating character. Thus we have a Bond Department, Public Utility Department, Investment Department, Traders' Department, statistics, the current financial situation, etc.—in addition to general articles and editorials.

We have endeavored to develop each department in a systematic and well-ordered growth, and to add new features as demand for them appeared. As the magazine broadened out, we concluded that the name "The Ticker and Investment Digest," under which it was at first published, did not fully represent us, so we changed the title to THE MAGAZINE OF WALL STREET. We also began to issue THE TREND LETTER, giving our opinion as to the general trend of the stock market.

We can see that our work is not without its effect. We have always discouraged the gambling kind of speculation; and there is less of it today than ever before within the memory of the present generation. We have promoted careful, intelligent study of market conditions; and there is more of that kind of study now than ever before. We have counseled the public to buy in the panics and sell on the booms; and it is the universal testimony of brokerage houses that a larger proportion of the public does this now than ever before. We have insisted that there is a science of speculative investment; and more people are ready to admit that today than ever before.

In the beginning, we laid down a rule for the selection of our articles. That rule is still in force today. It is this:

"WILL THIS ARTICLE HELP OUR READERS MAKE MONEY?"

And many readers have written us or stated to us that they have made hundreds or thousands of dollars as a result of ideas obtained from our columns.

We feel that we have a record of achievement behind us, and we take satisfaction in it because it has been independently won. We have truckled to nobody, curried favor with nobody, have never relaxed our standard of honesty toward our readers, and we wear the collar of no special interest.

We hope to make the history of this magazine one of systematic and continuous progress in the rendering of a *practical benefit* to readers.

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The early history of the New York Stock Exchange is very closely connected with the story of the Erie Railroad, the manipulation of Jay Gould, Commodore Vanderbilt, Daniel Drew, Jim Fiske and others. The vicissitudes of this road, therefore, constitute a fairly complete story of early Wall Street. A fascinating and instructive volume.

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When Railroads were New. By C. F. Carter. Price, $2.00 postpaid.

This book tells of the struggles of the men who built the first railroads. In fact, it is the human element and not the details of mechanical construction that the book deals in the main. There are drawings of the different types of cars and locomotives used on the various roads. The book is as entertaining as a novel.

Speculation

A B C of Options and Arbitrage. By S. A. Nelson. Cloth. 187 pp. Postpaid, 66 cents.

Giving a complete definition of stock options, American forms, uses of the London Stock Exchange (method of shipping stocks between London and New York, the conversion of London into New York prices, etc., etc.

A B C of Stock Speculation. By S. A. Nelson. Cloth. 16mo. 232 pp. Postpaid, 66 cents.

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Cycles of Speculation. By Thomas Gibson. Cloth. Postpaid, $1.57.

Discusses the difference between mechanical gambling and marginal speculation; a brief history of great speculative movements, with analyses showing the causes of such movements; the questions of gold supply, money conditions, politics, crops, etc. Other subjects treated are: Basing Railroad Values; the Effects of Business Depression; Puts and Calls; Dividends; Undigested Securities; the Best Methods of Trading; the Selection of Securities; the Bank Statement, etc. That speculation runs in cycles has come to be a well established fact, and the investor should inform himself on the subject.

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This book contains fourteen articles selected from early issues of The Ticker and Investment Digest, such as: Principles of Price Movement, by Thomas J. Woodlock, member of the New York Stock Exchange; The Scale Plan, by Chas. H. Dow; How to Succeed in Speculation; Taking an Investment Position; Forecasting the Stock Market; A Specialist in Panics, etc.

Fifty Years in Wall Street. By Henry Clews, LL.D. Postpaid, $3.30.

Mr. Clews opens many secrets connected with the business affairs of the American metropolis and records the history of the "Street" in an interesting and accurate manner. Few other men could tell as much of Wall Street and its doings as Mr. Clews. The book is very interesting, as well as instructive.

Game in Wall Street and How to Play it Successfully. Cloth, 100 pp., postpaid, $1.08.

It is intended to be an exposition of the methods employed by pools, manipulators and insiders in exercising a partial control over the stock market. The limitations of the author's viewpoint are shown by the title, but the book contains useful suggestions, and will undoubtedly be a help to the amateur operator. Some of the statements made must be taken with mental reservations.

How Money Is Made in Security Investments. By Henry Hall. Cloth, postpaid, $1.62.

Outlines the methods used by noted American millionaires in accumulating their fortunes. The book is a study of the long swings of the market and how to take advantage of them. Perhaps no book is of more value to the speculative investor.

Pitfalls of Speculation. By Thomas Gibson. Bound in cloth, 146 pp.; price by mail, $1.07.

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